THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 69, No. 1 — October 18, 1941

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The biggest problem to lick in gearing our industries to a war basis is "tooling up." Some of the precision instruments, gauges and machine tools take months to build. Another problem which must be faced is the apathetic feeling throughout the country as to the urgency of the situation. Subcontracting is also discussed.

»»•««

THE ARMED FORCES OF THE PACIFIC

CAPTAIN W. D. PULESTON, U.S.N.
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The author writes well and has a thorough knowledge of his subject. Captain Puleston presents all the facts which might occur in an engagement between the United States and Japan. He comes to the conclusion, that if such an engagement should take place, it must ultimately end in complete victory for us.

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DEMOCRACY'S BATTLE

FRANCIS WILLIAMS
Viking Press. 324 pp. $2.75

England can win the war . . . so says Mr. Williams. She can win because she is battling the force of National Socialism and Fascism . . . which systems of government have been forced upon men at the point of gun. Not very pleasant reading for the upper class Englishman. The author would make many changes in England—but at its worst, Britain is still worth fighting for.

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These books may be ordered from The Magazine of Wall Street book department.

With The Editors

The Profit Motive

THERE was a time when our left-wing intellectuals, parlor pinks and fellow travellers—not a few of them on the Federal payroll—could say only good of Communist Russia, only ill of Capitalist America. This abruptly and embarrassingly ceased to be "smart" when Stalin cynically jumped into bed with Hitler—only to be cynically booted out later. After a period of discreet silence, America's pink nit-wits are now yelling their heads off for "democracy."

But they still turn up their noses at "the profit motive"; and in this, to say the least, they are getting tacit support from some of the policy-makers of the New Deal. It would be both inaccurate and grossly unfair to say that Mr. Roosevelt and his favored advisers are anti-capitalist. But it would be entirely accurate and fair to say that they have demonstrated, and continue to demonstrate, an inadequate understanding of the true function of the profit motive and of its *great social value*.

The instinct to seek material gain in commercial exchange of goods or services is as old as the human race. The incentive to seek such gain—and to chance risk of loss in so doing—is precisely the urge which has pushed us out of the stone age into the machine age—and a material living standard which our ancestors could not have visioned in their weirdest dreams. *There is no other human incentive strong enough to push us on to our maximum potential of future progress.* If anyone doubts this flat statement, an open-eyed glance at the dismal results of a generation of Russian Communism should be sufficiently educational.

It is quite true that the well paid managers of big business will carry on whether profits are large or small—but the overwhelming bulk of the "venture capitalists" of America are little people. If they should be liquidated—their "gain incentive" destroyed by an unwise or ruthless government—we could kiss American democracy good-bye. There would be nothing left but big business monopolies under the thumb of the State—and in that atmosphere it would be open to question whether the personal freedoms could permanently survive even in America.

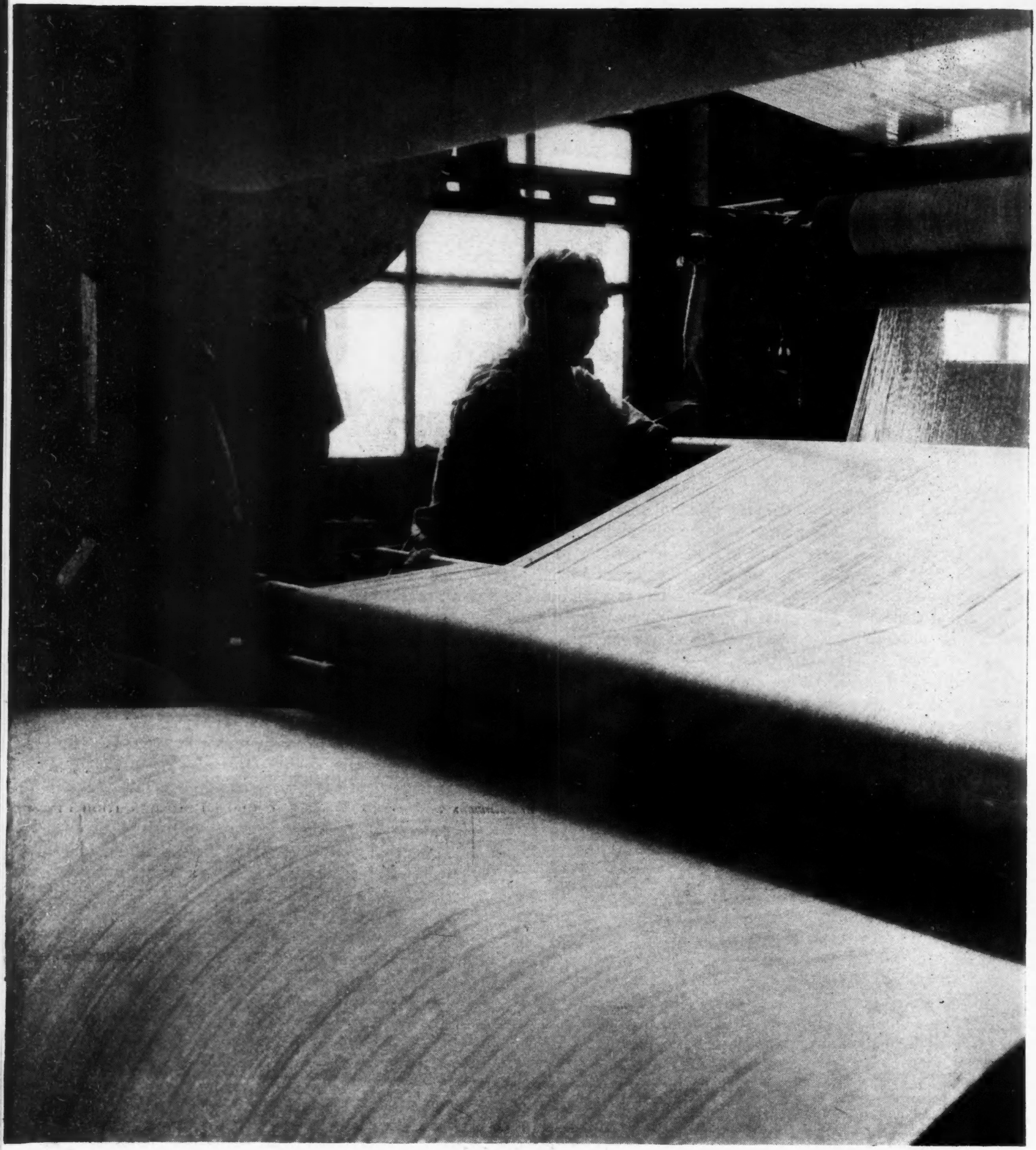
It is vitally important that we stop Hitler—but it is also essential that in the process we do everything possible to safeguard the foundation of our democratic civilization. Business "as usual" is one thing. The ruthless slaughter of small business—small individually but tremendous in the aggregate—would be something else again. Inequitable, ill-considered tax plans and over-enthusiastic application of priorities on raw materials are perfect ways to do it.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

Weighing Raw Material Supplies
By J. C. CLIFFORD

The Invisible War
Can It Defeat Germany?
By V. L. HOROTH

Tax-Sale Switches
Prospectve Year-End Dividend Payers

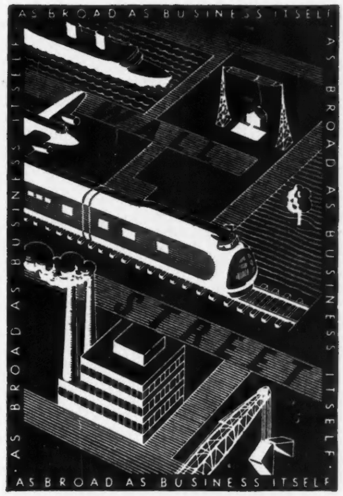


Gendreau Photo

The speed of this woolen loom suggests the record production levels being established in many Consumer Industries to meet unprecedented demands. For a discussion of vital factors involving the fate, for better or worse, of leading industries in the consumer goods field, turn to the article beginning on page 24.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Managing Editor*



The Trend of Events

TAX POLICY . . . It is high time that the Government—through co-operative effort of the Administration and Congress—made a determined effort to end the confusion and instability of its tax policy. There is no valid reason why business men and investors should be kept in the position of not being able to plan on their tax liabilities for even a few months ahead.

Within a few days after the last tax bill became law, the Secretary of the Treasury was out with a scheme to junk it and substitute a completely new and grossly inequitable principle—the confiscation of all corporate profits above a 6 per cent return on "invested capital." Now the Administration is considering radically higher Social Security taxes as a revenue-raising and anti-inflation move. And in the House, within a few hours of each other, Representative Gore introduces a bill which would limit profits on defense contracts to 8 per cent of cost and Representative Vinson introduces a bill which would do the same thing excepting that the profit limit would be 7 per cent.

We can find no quarrel with the principle of limiting profits on defense work to reasonable proportions—nor with the principle of heavily taxing earnings in excess of what was averaged over a reasonable base period prior to the war, provided fair adjustments be made to prevent inequitable treatment of the minority of "growth" enterprises or new corporations for whom rigid application of such a tax would be unduly punitive.

But the plan to raise Social Security levies is just another shot-gun device to get more revenue in as politically painless a way as possible. Since employers and employees would share the load, it would be but a half-way anti-inflation move with only the deduction from pay envelopes having any material relation to the inflation problem. Moreover, the payroll tax is not a tax on profits but on the cost of doing business and hence is highly inequitable in its incidence. A sharp rise would push many small enterprises, now making little or no profits, into red ink figures. Above all, however, we need some kind of a tax set-up that could be expected to "stay put" for at least a year, and preferably for the duration of the war.

BACKFIRE . . . Experience is the greatest teacher, so it's said—but that's true only if its lessons are taken to heart. A case in point is the recent sale, by competitive bidding, of $90,000,000 of bonds of the American Telephone & Telegraph Company. The S E C conceived the theoretical notion that distribution of security issues by competitive bidding, rather than through an underwriting

house of the issuer's choice, would be a good thing.

A good thing for whom? Presumably for the investing public. Certainly protection of the interests of that public was the primary purpose for which the S E C was set up by Congress. Yet here an entire large issue of bonds was monopolized by three great insurance companies—which means that holders of an issue that was redeemed with the proceeds—a wide assortment of insurance companies, trustees, savings banks and individual investors—were deprived of earning assets without opportunity to exchange them for the new bonds.

Clearly, the interests of these investors were not well served. Equally clearly, the interests of the investing banking business were harmed. What about the other parties to the deal? The head of one of the insurance companies which bought the issue—Lewis W. Douglas of Mutual—publicly expressed grave misgivings as to its "benefits." And since the Telephone Company prefers a wide distribution of its securities, the possible benefit of the differential in price gained by competitive bidding is of dubious value.

That would seem to make it pretty nearly unanimous. The parties directly concerned were either positively harmed or more or less unhappy over the net result. Maybe the S E C is pleased. We don't know. Strange are the doings of bureaucrats. The law under which this agency operates is badly in need of prompt, practical and equitable revision.

WHAT'S GOING ON? . . . Tricky doings by any responsible Federal official can only weaken public confidence in the purposes of the Administration and are a grave disservice to the cause of national unity. We are talking about Secretary Ickes and his much exaggerated oil shortage scare in the East. Additional scraps of evidence are now available to round out the record.

In the early weeks of the scare build-up by Mr. Ickes and his aides, oil executives—off the record—expressed suspicion that more tankers had been diverted than the British needed and that some were being used for purposes not directly related to the British war effort.

On Oct. 3 James A. Moffet, chairman of the California-Texas Oil Company and former Federal Housing Administrator, asserted that, on Washington order, some of the diverted tankers had been sent as far afield as the Dutch East Indies and Australia, and that he had learned from unimpeachable sources that the British were not only willing but anxious to return to American service some of the borrowed vessels. Mr. Moffet asked: "Do they want to disrupt the industry so that they can demand full Federal control?"

On Oct. 7, in a carefully prepared statement, Mr. Ickes announced that return by the British of 10 to 15 of the 73 diverted tankers was "a possibility of the near future." But will the returned tankers haul oil to the East? Mr. Ickes doesn't say yes and doesn't say no. It may be, he hinted, that they will be used to haul molasses!

With respect to the public's defense morale, Mr. Ickes has become a major liability. If the President will not do anything about it, that leaves it up to Senator Maloney's investigating committee to keep on letting in the light on this oil scare stink until the queer doings and devious purposes of Mr. Ickes are fully revealed.

REPRESENTATION . . . If we can judge by sample polls —and those of Gallop and Roper have proved both impartial and highly accurate over a long period of practical test—Congress in many matters is not as representative of public opinion as it is supposed to be. For instance, the public is thoroughly fed up with defense industry strikes and favors Federal regulation of unions, but its opinion is ignored.

Take taxes. A Gallop survey has shown that if Johnny Q. Public wrote the law, people with incomes from $1,000 to $10,000 would pay more than at present, but those with $50,000 to $100,000 would pay much less! Against nothing now, a family of four would pay $6 on an income of $1,000; $17 on $1,500; $55 on $2,000. The same family unit with $50,000 income would pay $10,000; and with $100,000 would pay $24,000—less than half the prevailing rates.

In these two matters—importantly related to our social and economic organization—it would seem that the "Left of Center" view is more representative of politicians and minority pressure groups than of the American public as a whole. Since public opinion must prevail in the long run, such straws as these are not without positive encouragement — suggesting that the future of America probably is considerably more promising than the scared and the timid now suspect.

POOR MAN'S BREAD . . . Suppose that at the start of this year Congressman Thadeus F. Winterbottom had risen from his seat in the House to move an amendment to a tax bill whereby a special sales tax of 11 per cent would be levied on all food, including the poor man's bread and the widow's sugar. Imagine the howl of protest that would have gone up!

But, of course, this is pure fantasy. Congressman Winterbottom is not silly enough to cut his own political throat. Nevertheless the net effect for the consumers of food is precisely what it would have been had a heavy sales tax been enacted. Its average retail cost, according to Conference Board indexes, is up about 11 per cent since the beginning of the year, and is up about 14 per cent from the average of the pre-war year 1939.

Here we have the perfect example of the workings of the most obnoxious type of invisible tax—inflation. Compared with 1939, it probably has increased the public's total food bill by close to $2,000,000,000, quite naturally hitting the poorest people the hardest. But this, so we are told, is "social progress" for the farmers; while wage inflation is "social progress" for the factory workers. To us, it is not any kind of progress. It is just inflation.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 8. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, October 13, 1941.

As I See It!

BY CHARLES BENEDICT

WAR IN THE NEAR EAST

THE gigantic struggle on the eastern Front, involving on incredible number of men and machines will go down in history as the Great Battle of all time. Never before have such vast armies been locked in desperate battle to the death. It is inevitable that both sides will be seriousy affected, regardless of the outcome.

The flower of German manhood is being decimated, with the possibility that the next generation upon which leadership should depend will have been so weakened as to be incapable of holding the conquered people in line, even should Hitler win.

Chained to the continent, desperately seeking to establish economic and military hegemony over outraged and embittered people, Germany is at the same time engaged in a titanic effort against Russia which is taxing her manpower and economic strength to the limit. It will be a miracle if her people can withstand the telling strain to which the nation is being subjected.

Knowing the high emotional temper of the German people, Hitler had planned to secure his decision from a series of Blitzkreig campaigns, but with his time-table way out of gear, the continuing sacrifices demanded are rapidly becoming unbearable.

Contrary to Nazi propaganda, Germany is not in the position of Rome in her early days of empire building. Rather her position can be compared with the closing days,—because it was the strain of continous and devastating wars which finally brought on the collapse of the Empire. It must be remembered that in those times wars were fought mainly by professional soldiers limited in numbers and the economic effect of these early campaigns did not bear down too greatly on the civilian population. On the contrary, each victory added to the wealth of Rome. That cannot be said about the German conquests of today which have produced economic disintegration in every captive country.

The drain on German resources is very great despite the huge stores accumulated, even including those supplies and equipment acquired by conquest.

Her all-out drive on Russia, in which the Nazis are recklessly hurling enormous reserves of men and tanks, tells of an urgency to finish the job, if possible, in order that she may be able to strike East this winter in search of fuel oil, edible fats and oils as well as to secure that essential outlet through the Persian gulf, if the Nazis are to break the British blockade.

Nazi necessity calls for action now if their plans are not to suffer from the delays and losses which have resulted from the strength of Russian resistance. On the other hand, it seems clear that Hitler must immobilize the Soviet armies before he can move safely. It is not only a military necessity but the diplomatic advantages to be gained would help to smooth his way immeasurably. He may therefore be obliged to take considerable risks if his hopes are not realized.

German maneuvers indicate that Hitler will bend every effort to reach his goal by a drive along the coast of the Black Sea and avoid fighting in the wild Caucasus Mountains. To this plan a friendly Turkey would be essential, especially if he is unable to take the Crimea. If however, Ankara holds firm, he will be obliged to take the risk of attacking her, which would bring further uncertainties and delays.

In this case, the shortage of ships for troop movements through the Black Sea would make his task a very difficult one, if he is to land a sufficient number of men and equipment necessary to back (*Continued on Page* 55)

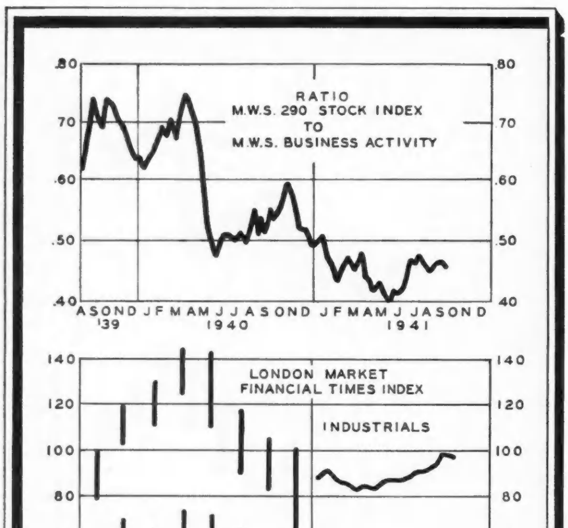
Market Base Established

Regardless of any unfavorable war news that may come out of Russia we do not anticipate, at worst, more than a modest extension of the recent reaction and we therefore favor selective investment purchases.

BY A. T. MILLER

Summary of the Fortnight: With weakness most pronounced in armament stocks, the market as a whole sagged to the lowest level since early July, but two weeks of low volume reaction in the volatile Dow-Jones industrial average was less and 3½ points, while recession in the rail average did not exceed ½ point.

THE gloom accompanying the most recent market setback seems out of all proportion to the realities, as we see them. For some weeks the range of fluctuation had been exceedingly narrow. While the speculative long position was light, as it has been all year, what there was of it had become increasingly stale and "tired" and a none-too-strong speculative confidence in the near-term outlook had been shaken by the renewed tax uncertainties interjected by the Secretary of the Treasury at a time when there had been hope that the subject would be dormant at least for a while.



In this setting bad news from the war in Russia was ample excuse for a mark-down of prices. We have expressed the opinion before—and we still hold it—that even a complete German victory over Russia would not of itself be sufficient to cause a serious and continuing market decline.

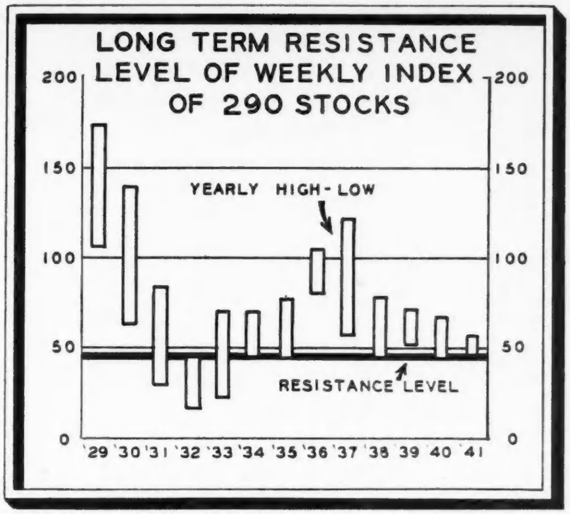
While the Russian war has been a prolific source of conversation and conjecture among investors and speculators, it is self-evident from the market's record that very few decisions to buy or sell stocks have been based on its shifting military fortunes. From the lows made by the market in May, a recovery movement of generally moderate and cautious proportions had begun *before* the German invasion of Russia.

Although it was the concensus of opinion that the Nazis would gain their objectives in Russia within a very few months at the most—with some "experts" limiting the Red Army's resistance to a period of a few weeks—Hitler's eastward move nonetheless constituted an important and unexpected piece of good luck for the British-American cause. But, excepting for a very brief and quite modest spurt, the market ignored the event.

On Saturday, June 21, the Dow-Jones industrial average stood at 122.51. Stalin at that time was thought to be at least a tacit ally of Hitler. Nobody banked on Russia coming into the war against Germany—voluntarily or involuntarily. On the contrary, conjecture about the Soviet role centered mainly in the gloomy possibility that Stalin might take Russia in as a full belligerent ally of the Axis.

As this is written, the industrial average stands within a small fraction of where it was on June 21, the day before the Germans marched against Russia. At least marketwise, therefore, the net effect of nearly four months of the Russian campaign is no runs, no hits, no errors.

Russian resistance has not yet collapsed. The Germans still have some fighting to do. How it will come out, we make no pretense of knowing. At best, the Germans may encounter troublesome resistance indefinitely, whether the Russians retreat to the line of the



Urals. They will not find the Caucasus region—where the British can at least give the Russian something of a hand—an easy nut to crack. But for the moment let us assume the worst contingency: that Russia in the near future will sue for peace.

Even in that event, as we see it, the main war outlook is no worse than it was before the Russian venture started. Theoretically, Hitler would be free to concentrate all of his striking power against the British. But if we allow for the large numbers of German troops that would have to be used in policing even a completely beaten Russia, and for the large German losses of men and materiel to date, it is open to serious question whether for at least a year to come Hitler could direct against the British any greater striking power than he had available last June before he invaded Russia.

Meanwhile, there has been invaluable time gained for British and American war production, especially the latter. We reason that, regardless of what happens in Russia, the odds against Hitler in the Battle of England—with its part of the Battle of the Atlantic—are steadily lengthening. The implication of continuing formidable Russian resistance and heavy German losses would be a shortened prospective duration of the war, ending in German defeat or collapse. The implication of a Russian surrender to Hitler, would be a prospective and indefinite lengthening of the duration of the war.

Now for variety of reasons much more important than the stock market, we would like to see Nazi Germany defeated sooner rather than later. But it we could expect early peace on acceptable terms, it is impossible to believe that the resultant radical reshuffling of security values would bring a net rise in the averages.

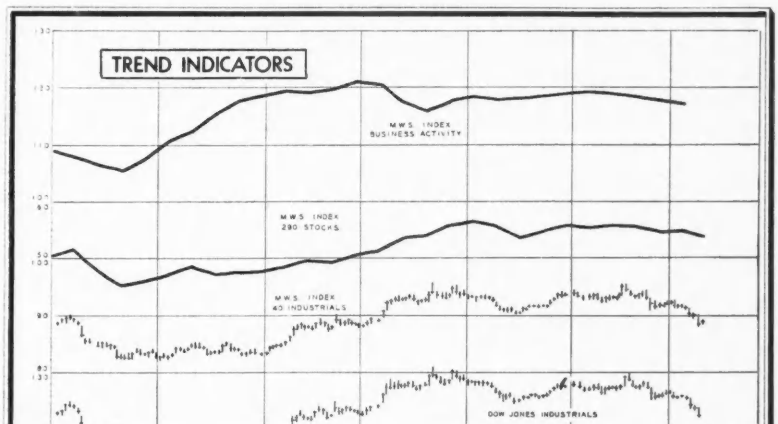
Conversely, if it is possible at all for the average level of the market to rise under modern war conditions, then obviously any development implying long war ought to be basically more bullish than bearish.

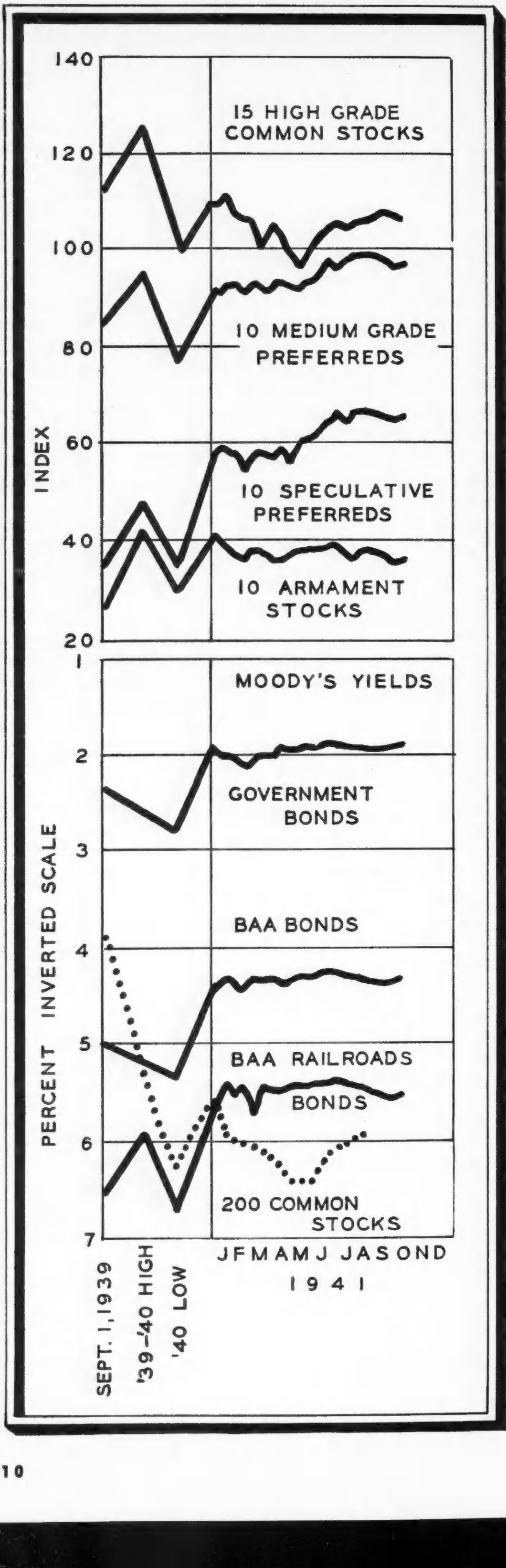
We have a strong conviction, as we have stated for some weeks, that the potentiality of downward movement in the market is relatively small. Against this, we have no conviction at all as to the potentiality of broad advance *in the near future*. This amounts to saying that when the next broad movement does develop, in our opinion, it is much more likely to be up then down, but that we have no present basis for attempting to forecast the timing as such a change.

Yet, if not dynamically bullish, the position that we here take is certainly by no means negative. The current market offers numerous generous and relatively secure income yields. If we are correct in our positive conviction that the risk of general decline is small, then the current reaction can only be regarded as an attractive opportunity for selective purchases by investors and speculative-investors temperamentally fitted to operate in a "slow motion" market. What they are offered is a good current return, with future potential of considerably more appreciation than decline.

We are still of the opinion that, regardless of the war news, there is a band of solid resistance underlying this market. Its bottom level is represented in the industrial average by the lows of June, 1940, and May, 1941, at approximately 112 and 115, respectively, as against just under 123 for the most recent closing session. It is possible, of course that within the near future we shall see further retreat down into this zone of defense, but we think that, if it comes, it would merely make the buying opportunity a very few points more attractive. Our guess would be that, if this reaction is not already drying up, it will do so at levels not significantly below the 120-118 range of the industrial average.

But since the proportions of fluctuation in the great majority of common stocks are more realistically reflected





in our weekly index of 290 issues than in the Dow-Jones industrial composite—which itself is a figure more than twice the average arithmetic value of the issues included in it—we think it worth while to repeat that this broad measure of market values has marked out over the past *eight years* a considerably more convincing lower line of resistance—within the range 44-46—than that indicated by the 1940-1941 lows of the Dow-Jones 30 industrials.

We don't say this line is absolutely unbreakable, but it has held up through more frightening periods than we expect to encounter within the foreseeable future. There fore, on any decline within reasonably close distance to it—and this is one—we just can't see any percentage in taking the pessimistic side.

Whatever the tax changes that lie ahead, it may be that we shall have to have greater certainty about them to permit the market really to stretch its legs in any big way. Meanwhile our sights as to upside potentials will have to be generally modest. To be specific, we would be delighted to see an advance of, say, 15 points in the Dow-Jones industrial average before the year-end —figuring from the present level—and we would cheerfully compromise for 10 points.

Selective Variations

From its summer recovery high a month ago, our average of 15 high grade equities has now declined about 3 points, but is performing at least no worse than the market. Demand for the better quality, seasoned stocks is worth watching closely right here. If it is forthcoming, it will further confirm our view that the market is in a buying range. Led by steels, aircraft and metals, sharpest percentage decline recently has centered in our average of 10 armament stocks, which at this writing stands at 33.79—comparing with the 1940-1941 lows of 31.69 and 32.41, respectively. The highs, on the perspective for the war period as a whole, are downward—that is, 43.04 in 1939; 41.13 last year; and 40.58 this year.

Since the war stocks are subject to the maximum of tax uncertainty, it is scarcely surprising that the technical action of the majority of them has been worse than average recently.

Individual issues which have displayed better-than-average resistance to the general reaction include National Distillers, Loew's, Phillips Petroleum, Skelly Oil, Union Carbide, Borden, National Dairy Products, Paramount, Pathe Film, Goodrich, General Motors, Chrysler, Climax Molybdenum, Atchison, Corn Products, General Foods, Borg Warner, American Air Lines, Eastern Air Lines, Food Machinery, Link Belt, International Paper, Kresge, Lone Star Cement, Procter & Gamble, Pure Oil, Snider Packing, Sears, Roebuck, Scott Paper, United Fruit and U. S. Industrial Alcohol.

Conclusion: While reaction possibly may carry a bit further, we think the market is in an opportune range for selective purchases, with the smallest risk probably offered by issues which have held well under the reaction test.—Monday, Oct. 13.

Coming Economic Revolution

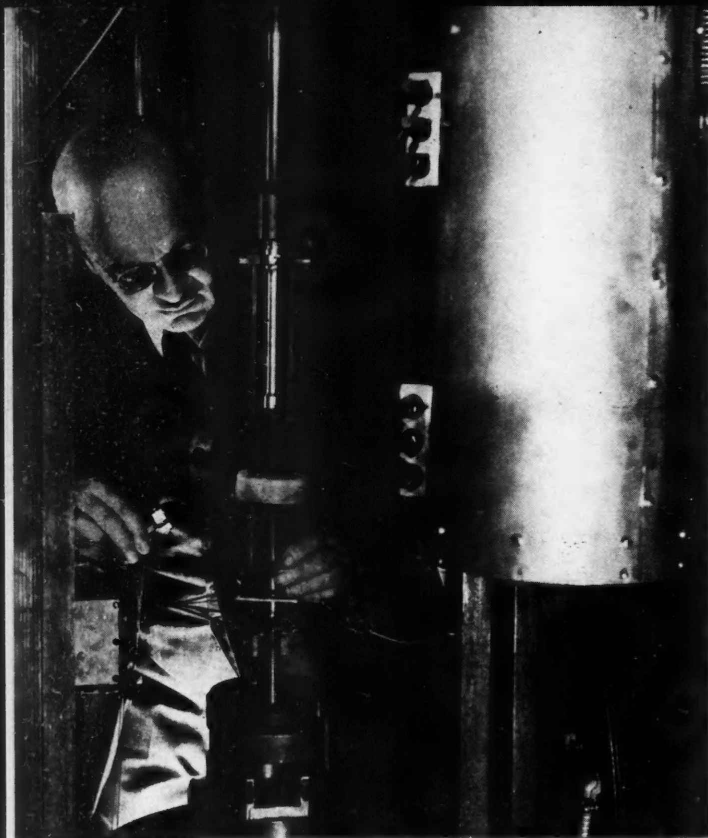
BY JOHN D. C. WELDON

The word "revolution" has an evil sound to conservaative ears, implying in most uses drastic change over a relatively short period of time. But not all of its varied meanings are fearsome, and some of its more common uses constitute a dramatized substitute for the less exciting word "evolution." Thus, historians speak of the "industrial revolution"—a thing surely drastic in its broad sweep of change but spread over many generations.

This "industrial revolution," of course, is unfinished business. Long before the present war burst upon the world, it had come to mean much more than factories and industrial mass production. With electricity and petroleum magically supplementing the older sources of mechanized energy, the machine-power age had also revolutionized agriculture, mining, transportation, communication. It was gradually pervading such backward old countries as India and China; and such younger, economically immature countries as Canada, Brazil, Argentina, to name but a few.

A world war—this one no less than World War I and possibly more so—inevitably produces an economic-financial revolution within the older but continuing "industrial revolution." War disrupts previous trade channels—international and domestic—and drastically alters the character of such commerce. It brings enormous shifts in the demand for commodities and in their sources of supply. Changing needs alter the direction of scientific research and produce a multiplicity of technological innovations. In an economically advanced, rich and balanced country like the United States, war pressures result in a radical expansion of the total facilities of production and in the "know how" of using them. Finally, and by no means least significant, war has revoluntionary monetary implications. The question last asked, or never asked, by a nation which is at war or preparing for possible war, is: "Where is the money coming from?"

It would take a volume even to highspot the major changes ushered in or greatly speeded by World War I. They included: Transformation of this country's world position from debtor to creditor; a vast increase in our liquid resources, brought about chiefly by inflation of bank deposits and by a heavy rate of public savings; great expansion of plant capacity in our heavy industries; rapid growth of such major new—or young—industries as automobiles, chemicals, radio and aircraft. Total value of our manufactures increased from about $24,000,000,000 in 1914 to just above $62,000,000,000 for 1919.



Westinghouse Electric photo.

War Pressures are Radically changing the objectives of industrial research.

In terms of 1914 prices for finished goods, rise in actual volume was 66 per cent or two-thirds.

Perhaps most spectacular of all—in terms of the number of people, as well as whole nations, disasterously affected—that war built up raw commodity producers for their cataclysmic let-down: the 20-year hangover of surpluses and low prices which contributed so greatly to the economic and political stresses of the gloomy '30's, which no governmental palliatives could cure, and which can be only temporarily dissipated by the present war inflation.

This is what Prof. Copeland of Harvard has called the "raw commodity revolution." It would have come anyway—more slowly—as a result of the mechanization of agriculture and of the extractive industries. But it flowered all at once. Fantastically high prices brought millions upon millions of additional acres of land into cultivation throughout the world and speeded application of power implements to its tillage. At the same time new sources of supply for many basic metals were opened up in many lands, notably copper in South America and Africa. Then the deluge, the mania for nationalistic self-sufficiency, erection of higher and higher trade barriers, breakdown of the gold standard in nation after nation.

Many of the most revolutionary contingencies of World War II are absolutely unpredictable, since they will be affected so largely by the question of when and how the war ends and what kind of peace follows it. At the very best, if Germany wins it, we would have to continue the armament race and sink into an armed camp existence for many, many years to come—and no nation can support a high living standard on such a basis. And the result could be little, if any, better if an uneasy, temporary, patch-work peace is ultimately negotiated with an unbroken Germany.

But if Germany is beaten we will be faced not only with problems of economic and financial adjustment at home, but with the far from simple question of what is to be our post-war relationship to the rest of the world. Will we again retire, as after World War I, into a shell of isolationism and maximum self-sufficiency in trade? Or will we play the leading role in trying to establish something of a New Deal—economically, politically, socially—through the world? Will we try to resurrect the now pale ghost of "free trade"? No one can really say what course American public opinion will accept.

For instance, we are now—under pressure of war realities—striving hard to reduce our dependence on certain important imports from distant sources of supply. We are developing synthetic rubber manufacture as rapidly as possible. We are increasing our imports of raw tin from Bolivia and building tin smelters in a big way in this country for the first time. We are busily thinking up substitutes for jute. But to the extent that we succeed in these efforts and carry their residue into our post-war economy, what happens to the economies of the Netherlands East Indies and of British Malaya?

Ironically, the net effect of our impending progress in synthetic fibers, synthetic rubber, plastics and substitution of the newer light-weight metals—aluminum and magnesium—for older metals will tend to have far more adverse economic effect upon our allies and friends among the raw materials producing nations of the Far East and Latin America than upon our industrialized enemies: Germany, Japan, Italy.

Command of the Markets

Yet whatever the general aims of our world policy, the materials—synthetic or natural—which can most efficiently serve given purposes at the lowest prices must prevail in the markets. On any other basis we would simply turn the clock of technological progress backward—and give great advantage to competing industrial nations.

Generally speaking, the most dynamic industrial changes ahead center chiefly in two types of situations: (1) "growth" industries in which the long term volume trend is geared in close and major degree to the continuing achievements of scientific research; and (2) industries permanently affected directly or competitively by revolutionary increases in productive capacity.

The outstanding example of the first is the chemical industry. When you talk synthetic fibers or plastics or sythetic rubber you are talking chemistry, it is far bigger and broader than what is commonly thought of as the "chemical industry." Chemical research is by no means confined to this industry. The big oil refiners and the rubber products manufacturers—to name but two examples—are in it in a big way. In fact it is impossible to think of any "growth" industry—with the exception of air transport—in which progress is not

founded largely or mainly on advance in knowledge of chemistry.

With respect to increased productive capacity and its competitive implications, the most revolutionary changes in sight center in two metals which were already on their way to new volume records even before war demands were felt—aluminum and magnesium. This country produced 292,000,000 pounds of primary aluminum in 1937, 327,000,000 pounds in 1939 and the rate is scheduled to soar to some 1,600,000,000 pounds in 1943. In 1940 we produced about 12,500,000 pounds of magnesium, which is 30 per cent lighter in weight than aluminum; and this year's total is expected to be around 30,000,000 pounds. The ultimate war production is expected to reach 400,000,000 pounds a year.

In comparison with these tremendous percentage changes, the relative expansion in such older metals as steel, copper, lead, zinc and nickel will be small. There will come a time—nobody can say just when—when we will have more than enough military aircraft and when the replacements needed to maintain adequate air power will require nowhere near 1,600,000,000 pounds of aluminum or 400,000,000 pounds of magnesium per year.

Part of the surplus capacity then existing will be utilized through the post-war growth of air transport and of private flying. But even when the demand for commercial aircraft multiplies five-fold, it will still be expressed in terms of hundreds of planes per year rather than the many thousands per year scheduled for war planes. There are a variety of obstacles that will retard development of a genuine mass market for small private planes, not the least being the matter of cost. Such planes today utilize a very small fraction of the volume of metal that is require for even the smallest combat planes. Aside from aircraft and other defense uses, the present demand for aluminum—which, of course, connot be filled—might be, say, 250,000,000 pounds a year.

Conceivably a time will ultimately come when manufacture of civilian planes will take up the slack in aluminum and magnesium that will follow completition of our military aircraft expansion program, but the chances are that the time factor will have to be figured in terms of decades rather than years. Meanwhile the few big companies producing aluminum and magnesium—they happen to be notably aggressive in both research and merchandising—are not going to sit with folded hands. Their prices are going to be drastically lower than in pre-war days and they are going to go after markets now held by various older metals.

Metals may be said to constitute the backbone of an industrial economy. Inevitably aluminum and magnesium—and more especially the former—are destined to play a far larger role in this economy in the future than in the past. Contrary to common impression, the commercial advantages of aluminum extend far beyond light weight. They include relatively high electrical conductivity, ease of machining, formability, high corrosion resistance, decorative appearance, strength and —especially as prices are reduced by mass production—a favorable cost-utility ratio.

We have space here to comment on merely a few of the more important *predictable* revolutionary changes in the world of metals. There will, of course, be many others which are not now predictable, having yet to emerge from the laboratories. It is aptly said that necessity is the mother of invention—and a war period is peculiarly one of pressing necessity—necessity to fill urgent new demands in new ways, necessity to find new sources of supply. For instance, tin is now relatively scarce and dear. The great bulk of our tin plate—which is simply a thin sheet of steel coated with tin—is produced by the hot-dip method. Recently, however, the United Engineering & Foundry Company announced that it had perfected a commercially practical method for producing electrolytic tin plate in strip form at a saving in tin alone approaching $10 per ton.

Pouring aluminum for a Wright aircraft motors—Vast expansion of aluminum capacity is certain to have revolutionary competitive implications in metal consuming markets.

And there would seem to be inevitably revolutionary potentialities in the relatively young science of "powder metallurgy." Any metal—primary or scrap—can be reduced to powder by corrosion and gravity techniques. Various metallic powders can be combined to provide the qualities desired in the finished product—and the finished product is obtained by a relatively simple process under which, through heat and pressure, the metallic powder is converted back to (*Please turn to page 52*)

A DECLARATION OF WAR

The Advantages versus the Disadvantages

BY LAURENCE STERN

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ALTHOUGH the United States is not formally at war, the distinction is legalistic rather than factual. The physical fact is that we are—and long have been—engaged in open acts of hostility against Nazi Germany.

It is true that these acts are limited in scope and effectiveness. But suppose you inform a man that you regard him as your mortal enemy and that you are going to do what you can to destroy him, and that you then strike him in the face. Surely, that's a fight, whether your blow be light or heavy.

In physical fact, the war acts of Britain are also limited in scope—limited by the military inadequacies which prevent her from sending attacking armies to France or Russia for an all-out assault on Germany.

Legalistic principles, it need hardly be said, mean nothing to Germany. To her an enemy country is an enemy country, whether it has "declared" war or not, whether its acts of hostility are limited or unlimited. The controlling rule is expediency, nothing more and nothing less. If it were expedient for Hitler to attack America, he would attack.

Personally, I don't hesitate to say that I am fed up with our equivocal war status. I believe in calling a spade a spade. I do not believe that the vital interests of this democracy can be well served by subterfuge, indirection, sophistry.

With the approval of our people we have turned over to Britain destroyers of our Navy and guns of our Army, to be used in a shooting war against Germany. Out of new production we are supplying our British ally with all manner of weapons and munitions in quantities limited only by physical shortages. American-owned ships, facing threat of German guns, are carrying these supplies into English ports—with the subterfuge of registry under the flag of tiny Panama. The United States Navy, with orders to "shoot first" at Axis sea raiders, is convoying in waters which are closer to Continental Europe than to this country and which have been formally declared by Germany to be a combat zone.

As I see it, this is war—even though undeclared—and anyone who thinks to the contrary is kidding himself. It is not good for a democracy to kid itself—also very dangerous. Let's revert for a moment to the man whose face you slapped. He happens to be a powerful and resourceful fellow. Perhaps you made a mistake in smacking him—although I don't think so—but having indubitably got into the fight, what are you going to do? What *can* you do except fight on until you win or are beaten—or are saved by somebody else?

It would be nice if somebody else—the Russians or the British—would knock the fellow out, with us just supplying the brass knuckles (under registry of the flag of Panama so that we, after all, would not *really* be involved!). That's exactly the result we are angling for in our policy of limited war action—but of unlimited liability if it should fail. It is agreed by a big majority of our people that its failure would be a national disaster. If this is true, what prudent alternative have we to doing *literally anything that is necessary, or becomes necessary, to make it as certain as anything human can be that Nazi Germany can not win her totalitarian war?*

That a very large majority of the American people see it this way has been clearly indicated by repeated sample polls of unquestionable reliability. This majority (1) approves Roosevelt's foreign policy and every step taken to date to implement that policy; (2) its collective opinion is that the United States eventually will be formally at war; and (3) it believes that it is more important that Germany be defeated than that the United States "keep out of war."

And regardless of the loud noises made by the isolationist minority in Congress, the legislation which has been passed plainly reflects a majority conviction of the Senate and House that Nazi Germany represents an intolerable threat to the vital interests of this nation. Otherwise, the unheard of billions voted for armaments and the authorized lend-lease alliance with Britain would not have made sense.

Ewing Galloway

Since our legalistic non-belligerence is completely at variance with continuing *actions* which Germany has every right to consider belligerent, I say it is a sham and a lie. Moreover, in my opinion, our continuing obsession with subterfuge and equivocation is doing more than any other single thing to confuse and divide our people, and to hamper the efficient prosecution of our war effort.

If what we most desire is the earliest possible end to the Nazi threat—and surely it is exactly that—then the decision confronting us should be made solely in terms of practical expediency. Will this objective be served most efficiently and at least risk of disastrous failure through a formal Congressional declaration that a state of war exists between the United States and Germany? Or by continuing the "short of war" fiction?

In my considered judgment, the vital interests of this country will be most surely and effectively protected by a declaration of war than by further equivocation, vacillation and confusion.

The thought of a formal war status conjures up in many minds allegedly practical objections which, I think, have no realistic foundation. Thus, it is contended that a declaration of war would force us immediately to cut down on our supply of arms to Britain and other allies; and to concentrate on building up a vast expeditionary force as rapidly as possible or, if not an expeditionary force, at least tremendous defensive armies to guard our shores from invasion by the Germans.

To me this argument seems ridiculous. It amounts to saying that whereas we now have freedom of choice in strategy and tactics, we would not have it the moment our existing war position becomes a legalized formality. Britain is at war, but obviously she retains full freedom of decision as regards offensive strategy and tactics, subject to limitations of expediency. She is not *compelled* to undertake foolish, impractical or premature military ventures merely because she is formally at war. Neither would we be.

The argument that a declaration of war would subject us to the risk of an attack by Hitler before we are ready is both silly and pusillanimous. Whether the Germans ever attempt military aggression against the Western Hemisphere will depend not at all upon how much provocation we give them but solely upon expediency as calculated in Berlin. Excepting for possible token raids on such seacoast cities as

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New York and Boston by very limited numbers of German "suicide" bombers, our war declaration would not make Nazi attack on us one whit more expedient than it is today.

Aviation has a long way to go before Germany or anybody else can have bombers, in quantity, which are capable of attacking effectively across the Atlantic Ocean and of then getting back home. And since we and Britain are now rapidly over-taking Hitler in air power, he can scarcely be crazy enough to throw away long range ships in quantities sufficient to get more than minor bombing results. One is almost ashamed to give even passing notice to this matter—in view of what London has so staunchly endured and in view of the almost infinitely greater immunity of our cities to air attack.

But, it may be asked, would not our formal entry into the war commit us to an unpredictable—and therefore possibly unlimited—liability? Yes, it would. But my answer is that we are committed *now* to a liability which is beyond calculation and therefore without foreseeable limit. The proportions of this liability will be one thing if Hitler should be beaten two years hence; another thing if he should be beaten five years hence; still a third thing if Great Britain should be defeated.

The basic American-British strategy is to strive to keep Hitler bottled up within the continent of Europe, to strangle Germany by naval and economic blockade, to wear her down by air attack. I don't know whether this strategy can ultimately bring the war to a satisfactory conclusion or whether it can even prevent the Germans from breaking out of their European bounds—but as far ahead as anyone can now see it will remain the only strategy available to us.

Its backbone is sea and air power, plus Imperial landpower in Africa and the mid-East. Even if Hitler's Russian campaign should prove as successful as he hopes, it will not be the last Nazi offensive. The next one probably would be aimed at *(Please turn to Page 51)*

Charles Phelps Cushing Photo.

BY E. K. T.

Profit limitation of 6% proposal of Secretary Morgenthau has met virtually unanimous opposition and will not be enacted in foreseeable future. Belief is Morgenthau expected this and made proposal either or both to (a) warn business that defense taxation will take away profits one way or another; (b) use it as trading material to get something which will appear less drastic only by comparison. Best guess is another attempt to get the excess profits schedule twice rejected by Congress, but there are hints Morgenthau would compromise on a plan to tax all corporation profits above a "normal" level unless they are invested in defense bonds, which haven't been selling as well as he wants.

Social Security revision has many ramifications, most all of which will cause fights in Congress. Heavy increase in payroll taxes will burden profitless employers more than booming concerns, crimp purchasing power, give Treasury big fund which will be spent currently for defense, not held for benefit obligations. States may strongly oppose federalization of unemployment compensation system, though non-industrial states may be bought off by plan to subsidize them from tax collections from other regions. Application of taxes to farm labor also presents many difficulties. Early Congressional action not anticipated.

WASHINGTON SEES:

Prevailing predictions in high Washington circles as to the course of the war are that Germany will destroy effectiveness of Russian army by mid-winter, occupy industrial sections of European Russia, and push remainder of Red Army and Soviet government back to the Urals. British aid through Iran may or may not stop Nazis short of the Caspian oil areas, but in that general region the war will become stalemated until spring.

With all Europe under his control, Hitler is expected to concentrate on perfecting his new order and suggest a negotiated peace based on recognition of his conquests, but without further demands on the British Empire. Some British sentiment may favor this, but U. S. government will strongly oppose and its view is expected to prevail, particularly if accompanied by actual promises of armed assistance. But if Russia, or even England, should agree to peace, Washington would consider it only a truce, so U. S. defense program would not slacken.

Priorities system is putting more emphasis on allocations of materials to uses, less on granting preference ratings to users. Result is much less paper work, more direct action, definite knowledge of where materials go, and less chance for non-essential uses to get materials. Dovetailing with allocations are limitation orders, curtailing output of whole industries, e.g., autos and refrigerators; more industries are scheduled for limitations.

Priorities chiseling is being cracked down on by OPM. Compliance staff and field offices have been greatly enlarged, and complaints are coming in of violation of priority orders, bootlegging materials, charging excessive prices to buyers without priorities. All priority orders are enforceable by stiff criminal penalties and OPM can blacklist offenders to prevent them getting additional materials. Some prominent firms may be picked as examples.

Steel capacity expansion plan of OPM will not mean more steel for hard-pressed non-defense industries. It may take two years to get the new mills into production, and defense schedules are being planned to take every ton then. Decision illustrates current policy to plan for an indefinite emergency and not worry too much about excess capacity some time in the future.

Census Bureau is quietly seeking legislation with concealed provision permitting it to use "Gallup poll" sampling methods instead of complete canvasses. While this would serve some purposes, statisticians, merchan-

disers, and many others insist complete counts must be made to provide basis for sampling and give accurate results. Business is much perturbed over prospect that 1941 census of manufactures may not be taken. Political wires are being pulled to get bill through without disclosing its real purpose.

Installment credit controls will be altered soon by Federal Reserve, and other changes will be made from time to time. Conception is that controls are half to prevent inflation, half to direct flow of materials. So jewelry and soft goods will not be regulated at present and wood furniture rules may be relaxed. But maturities on other goods will be reduced from 18 months soon, probably to 16 or 14 months at first. Regulations are also under consideration to restrict personal loans which may be used for buying listed articles.

Foreign traders are much concerned over current trends in export and import business. With Japan embargoed and British Empire business handled through Lend-Lease or purchasing commissions, Latin America is the only market left, but priorities and export control have about stopped that. South American business men are finding they can buy and sell better if they work through their governments which can get action via our State Department, which looks like trend toward government monopolies of all foreign trade.

Press Assn. Photo

Chairman Vinson of House Naval Affairs Committee proposes limitation of 7% on profits from defense contracts.

Paper scarcity is approaching rapidly, particularly grades for shipping, packing and packaging, but writing and printing grades may be pinched. Business is being asked to conserve in all possible ways, use other packing materials, reduce circulars and merchandising displays, re-use old containers, use lighter weight paper, cardboard, and corrugated board. Making users waste-conscious is expected to reduce demands on paper mills very considerably, but OPM hopes to make present output go 25 per cent farther.

Japanese negotiations are stalemated but the Administration is not much worried. It was Japan that started them, and U.S. can stand suspension of trade a lot better and longer than Japan. Stiff U.S. attitude is shown by announcement no silk will be purchased, indicating no early resumption of general trading. Diplomatic circles think Japan is now in a bad spot and probably will not start major trouble in the Pacific.

Mexican negotiations are nearing completion and agreement will save face all around, though short of what all interests desire. Mexico apparently will get the better of the bargain, U.S. loss being charged off to hemisphere defense and good neighbor policies. Mexico will recognize right of U.S. oil companies to payment for expropriated properties, thus strengthening State Department in dealing with other Latin nations, but payments will come indirectly from U.S. Government which is buying all important Mexican exports.

Export priorities will be imposed soon by Maritime Commission under the indirect authority of the ship warrants act which denies dock space and fuel to vessels not following routes and carrying cargoes suggested. Imports are now controlled by alloting cargo space, and growing volume of exports in relating to shipping facilities will soon make it possible or necessary to do the same with export shipments. This puts South American nations and U. S. exporters alike at mercy of the Administration and its hemispherical "defense aid" program.

White House bottleneck has been broken to large extent. Pressure of foreign affairs finally induced F. D. R. to delegate even important policy decisions on defense, particularly to S P A B, Lend-Lease Administration, and Economic Defense Board. Defense organizations are now running much more smoothly, as jurisdiction has been divided among the agencies and their divisions and branches. Businessmen and professors brought in for short tricks are settling down for the duration or being replaced by permanent and experienced staff men. Visitors now find it much easier to locate the right office and get a definite and speedier answer to their problems.

Civilian business using scarce materials still faces hardship and many factories must close or curtail; but S P A B policy is to do this selectively rather than hit-or-miss. Maintenance and repair materials will be provided for virtually all industries and allocations will be given to continue production and service of industries essential to the economy and indirectly aiding defense. Beyond this, allocations will be given to one-industry towns where a shut-down would be serious, and to firms which have best record in conserving materials and using substitutes. The going, however, will be tough for the small fellow.

Railroad traffic is being handled without jams in spite of fall rush, and roads are confident they will have no difficulties handling the 12 per cent increase over last year estimated for fourth quarter loadings. They are a little worried about prospects for steel for car and locomotive building if traffic increases throughout next year, but are confident they can handle the business so well that there will be no serious suggestions that the Government take over the railroads as it did in the 1917 break-down.

JAPAN at the Crossroads

BY V. L. HOROTH

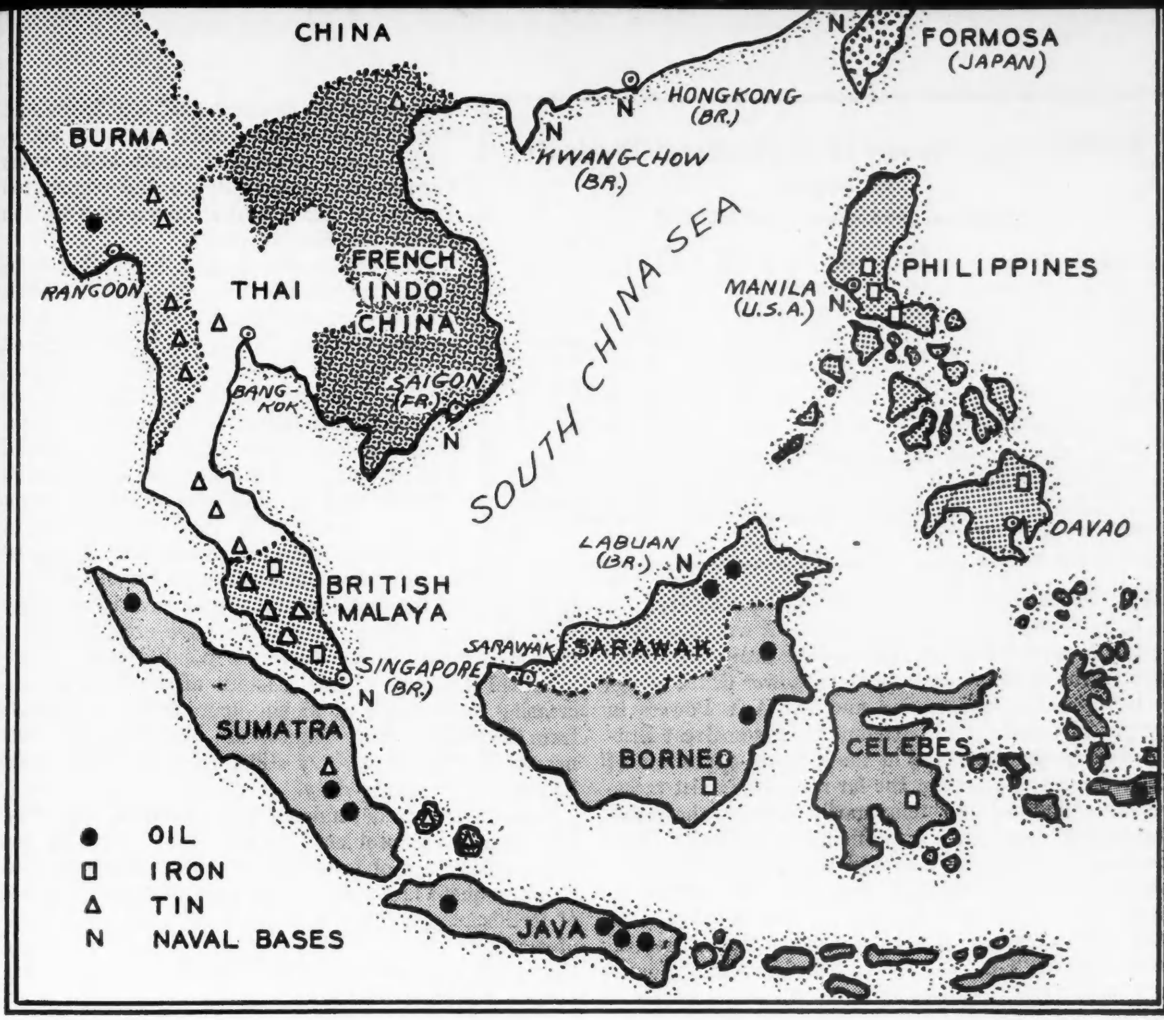
Philip Gendreau Photo

So many strange and illogical things have already happened during the present war, so many conflicts have been started without any declaration of hostilities, that armistice negotiations between two nations who have actually never fired a shot at each other should not come as a surprise. The secret parleys which have been going on for more than a month in Washington between American and Japanese leaders have all the earmarks of armistice talks, while the "war"—an economic one to be sure—is still going on. And it is not beyond the realm of possibility that Japan, the very nation that ushered in the second World War by her aggression in 1931, may be the first of the aggressor nations to conclude a negotiated peace with the anti-Axis bloc and that she possibly may even be induced to cooperate with the democracies on the post-war reconstruction problems.

Japan happens to be a nation with a highly developed inferiority complex, and is very sensitive about "saving face." She is undoubtedly averse to displaying her internal difficulties or to admitting that, to use an American idiom, she has been "slipping" in her game of power politics. Hence, the great secrecy that has veiled the Washington negotiations for armistice ever since they were disclosed by Prime Minister Churchill late in August.

A host of explanations could be found for Japanese desire for a peaceful settlement with Great Britain and the United States. She may really be worried about the possibility of the appearance of the Nazi hordes on the shores of the Pacific. Or the present Tokyo Government, composed largely of rather sensible high naval officials, is sincerely trying to prevent the internal economic collapse and subsequent social disorders or desperate military adventures on the part of army extremists. Even more likely is it that Japan has sensed a definite shift in the balance of power in the West as a result of the Nazi campaign in Russia and of American rearmament. She may now be anxious to get on the anti-Nazi bandwagon while she still has left some of her bargaining power based on her "nuisance value" in the Pacific. The soft-pedalling of the Tripartite Pact on its first anniversary, celebrated on September 27, is an indication that Japan would like to disassociate herself from her Continental connections and to try to solve independently the issues of the Pacific. But then, of course, it is also quite possible that the Japanese extremists are just playing for time and for a few economic concessions from us, hiding behind the front of moderates, while waiting for the supreme effort of the Nazis to win the decision in Russia before the Winter sets in.

While the trend toward isolation in international politics has been strengthened, Japan remains far from united on the issue of the "armistice" with the Anti-Axis camp. The belief seems to be still widespread that the



United States and the British Empire will be only too glad to pay a price for avoiding a two-ocean war by acceding in principle to the Japanese expansion in the South Sea area and in China. But it is rather revealing of the desperate strain in which Japan has found herself, when in almost one breath with such bellicose words as "There is a limit to our patience" (in reference to Washington conversations), and "what are we waiting for" (quoted recently by the *New York Times* from a Japanese conservative paper Miyako) comes the acknowledgement of economic pressure and weakness: "the country is choking and for two months she has not obtained a drop of gasoline or a piece of scrap iron; and she is living off her stocks, while the British and Americans are gaining in the Pacific."

When the second World War started, Japan had high hopes of solving some of her economic problems which the wasteful war in China, the militarizing of her economy and the appearance of social decay (in consequence of the declining standard of living) have rendered increasingly acute. The moderates, including mostly the old politicos, the Emperor's entourage, and the business world in general, hoped that the solution of the economic crisis would be found in Japan's obtaining a larger share of world trade, as she did during the First World War. The military extremists, consisting chiefly of young army officers with fascist ideas of social and economic justice, likewise welcomed the war in the West as offering them the opportunity to carry out their plans for the solution of the economic crisis along Hitlerian lines, by loot and conquest.

However, neither faction could quite deliver the goods. The hope for a peace in China failed as Free China just would not be bullied into believing that she had been defeated. The hope for a greater share of world trade was frustrated by the scarcity of shipping, preoccupation of industries on war orders and sheer inability to trade in a world turning totalitarian. Following Hitler's victories in France, Prince Konoye was brought in, a more willing tool in the hands of army men. But the opportunity to strike southward at the time when the United States was not yet committed to the Allied cause and when the Netherlands East Indies were still unarmed, was somehow missed, apparently in the hope of an easier killing, and in the meantime the economic pressure continued to grow.

The peak of the military party's power was reached at the very time when the British Isles were reeling under the attacks of the Luftwaffe. The Tripartite Pact was signed and the Army began to transform the country into a totalitarian state. The fascist organization called the Imperial Rule Assistance Association was set up to fulfill eventually the role of the Diet, while the industries were to be merged into State managed organizations.

Relative Importance of Agricultural Products in Japan

(Value of production in 000,000 Yen)

Year	Rice	Silk (cocoons)	Wheat	Barley and Rye	Price of Food	Price of Cereals*
1936........	1,865	387	173	145	123	197
1937........	2,071	420	211	175	130	219
1938........	2,172	346	202	181	137	225
1939........	2,874	882	317	267	149	277
1940........	2,515	862	369	292	173	329
1941 (Feb.)...					180	335

* Dec. 10, 1941—100.

Note: Rural prosperity in Japan reached the peak in 1939 principally because of rising prices. Since then the stabilization of agricultural prices and sharp increase in the prices of products bought by farmers, has had an adverse effect and contributed to the reduction of crops in 1941. The table shows the importance of silk (cocoons) as cash crop; mulberry is grown on hillsides where hardly any other crop except barley would thrive.

If an outsider could find any thread running through the maze of Japanese internal politics, it would be that the fortunes of the moderates and the army extremists reflected the shifts in the balance of power in the struggle between the democracies and the Axis Powers in Europe. The unsuccessful attempt to invade Great Brittain soon became reflected in the growing opposition of the moderates. By spring, the far-reaching fascist measures were modified and, temporarily at least, the transformation of Japan into a full-fledged totalitarian State was stalled. With the Diet and the Imperial Rule Assistance Association shorn of their respective powers, an impasse developed which the country attempted to overcome by giving the power and leadership to neutral groups: to the "General Defense Headquarters," a curious non-political organization under direct command of Emperor Hirohito, and in the Cabinet to a group of high naval officials (the Cabinet of Admirals) whose position in between the moderates and the army hotheads has long been known.

While the shifts in the balance of power in Europe have worked against the Japanese extremists, a shift in the balance of power in the Western Pacific has gradually lessened the chance of carrying out the imperialistic dream of "The New Order in East Asia," until at present it seems to be entirely dependent upon Hitler's victory in Europe. With but little help given to her from the outside, Free China has been able to hold her own and apparently is now in the position of even fighting back the invader with a measure of success. The reinforcement of Singapore with bombers, torpedo planes and troops and a similar strengthening of the defenses of the Netherlands East Indies and the Philippines have rendered attack riskier. The German invasion of Russia at the same time further isolated Japan and augmented the list of her potential adversaries by the Soviet Far Eastern Army.

How the development of the combat technique has worked toward greatly neutralizing the superiority of Japanese naval forces in the Western Pacific has been described more fully in an earlier article (July 12). Suffice it to say that the Japanese Navy almost anywhere from the Philippines southwards would expose itself to the superior British and American bombers and torpedo planes. This is aside from other handicaps such as the scarcity of aviation gasoline, the inflexibility of Japanese aircraft industry to bring out modern planes in sufficient numbers, and the fact that Japan's airforce is relatively weak in fighter planes, thus making the use of bombers extremely risky. It has been also pointed out by well-informed students of Far Eastern affairs that the increasing dependence of Japan upon foodstuff imports from Indo-China and Siam would lower the effectiveness of the Japanese Navy still further, as ships would be needed for convoy duty.

Japan's greater dependence upon overseas food supplies is a recent problem brought about partly by the growing shortage of farm labor, which is being drained into armament factories, and partly by the restricted use of fertilizers. Similarly, the restrictions put on the use of gasoline by fishing boats are reported to have reduced the supplies of fish, second only to rice as the most important staple of the Japanese diet.

Hope that Japan may at least try to arrest the shifting of the balance of power in the Western Pacific from her disfavor was finally dispelled last July. Following the Japanese landing in Saigon, Indo-China, the economic sanctions, the freezing of Japanese assets intended to stop trade at the source, were invoked by the ABCD Powers (America, British Empire, China and Dutch East Indies). That meant that (*Please turn to page* 53)

The Trend of Japanese Government Finances

(in 000,000 of Yen)

Year	Defense Expenditures Regular	Defense Expenditures Special	Total	Total Budgetary Expenditures	Ordinary Revenues	National Bonds Outstanding	Approx. National Income	Budgetary Expend. % of National Income
1929-30..............	506		506	1,736		5,959	11,900	14
1930-31..............	442		442	1,558		5,955	10,470	15
1931-32..............	454		454	1,489	1,411	6,187	10,050	14
1932-33..............	686		686	1,950	1,385	7,054	10,220	19
1933-34..............	871		871	2,255	1,579	8,139	11,470	20
1934-35..............	942		942	2,163	1,504	9,090	12,000	18
1935-36..............	1,032		1,032	2,206	1,581	9,854	12,500	18
1936-37..............	1,078	517	1,595	2,799	1,762	10,307	13,100	21
1937-38..............	1,236	2,022	3,058	4,731	2,309	12,817	15,400	31
1938-39..............	1,167	4,850	6,017	7,821	2,909	17,344	18,800	42
1939-40..............	1,629	4,605	6,234	8,563	3,672	22,886	22,000	39
1940-41..............	2,305	5,460	7,764	11,034	4,210	30,000**	25,000	44
1941-42(b)............	3,250	4,880	8,130	12,205	4,992	37,000a	25,000	
1941-42(c)............				21,500	4,395	46,000d	30,000	70

*—As of the end of the fiscal year, March 31. **—February 1941, Yen 29,300,000 (last report of the Mitsubishi Bank). (a)—Anticipated. (b)—Budget estimate. (c)—Otto D. Tolischus in New York Times, Sept. 25. (d)—Anticipated on the strength of recent estimates that the national debt is rising at a rate of about one billion yen monthly. At the end of July 1941 the debt is said to have reached 33 billion yen.

Behind the public apathy and skepticism reflected in the stock market, a profoundly significant fact is the increasing tendency of institutions and trustees to invest in equities.

The Case for Common Stocks in Today's Investment Portfolios

BY J. S. WILLIAMS

THE premise that common stocks offered superior long term investment qualities over bonds and preferred stocks was so extensively exploited during those fabulous years of the late '20's that many investors were convinced that for them to spend their old age in comfort and security it was necessary only to draw their savings out of the bank and buy common stocks. The subsequent disillusionment of most of them is a matter of history. The common stock investment theory, along with a lot of other "New Era" conceptions, became pretty thoroughly discredited in the depression years. It was not, however, so much that the theory was disproved as it was the mistake made by many investors in failing to consider the weak points of the theory, as well as the strong ones, and being guided accordingly. They failed to distinguish between investment and speculation and succumbed to the line of reasoning that common stock values would go in only one direction—up.

Attesting to the low state to which common stocks have fallen in the eyes of the investing public is the long sustained low volume of stock transactions, despite the record-breaking level of industrial activity, increased dividends and exceptionally generous stock yields.

But if the average individual investor appears to have all but completely forsaken common stocks, indications are that other important investor groups are at least willing to re-examine the case in favor of common stocks. Easily the most significant development in this direction is the move which is now on to permit life insurance companies in New York State to invest a part of their funds in certain types of common stocks. Some idea of the scope of this move is gathered from the fact that nearly all of the leading life insurance companies operate in New York State. Total life insurance investments made in 1940 exceeded $3.5 billions, nearly all of which was invested by New York companies.

Life insurance companies are justly rated as one of the most important as well as one of the most conservative investor groups in the country. The outstanding record of these companies in meeting their obligations to policyholders and in maintaining a sound asset structure for the purpose of assuring future payments, has been achieved only through the constant adherence to a high standard of quality with respect to securities acquired. There is no evidence to suggest that there would have been any appreciable lowering of these standards, even had these companies not been limited by law to the class and rating of securities in which they are permitted to invest policyholders' funds.

A joint committee appointed by the New York State legislature has since 1938 been engaged in making an extensive study of common stock investments, gathering evidence and opinions and checking on the experience of universities, investment trusts and other fiduciary investors. Public hearings on the subject are scheduled for the near future and results of the findings by this committee promise to make a valuable and revealing contribution to the entire subject.

Lacking this data, however, there is nevertheless available from the records some rather convincing evidence bearing on the pros and cons of common stock investment.

Behind the idea of permitting life insurance companies a broader scope in their choice of investments there is not the primary thought of aiding common stock values or creating a broader diffusion of common stock ownership. The principal consideration is a very practical one. The rate of interest on life insurance funds, taking the average for 100 companies, has declined from 5.27 per cent in 1920-24 to 4.36 per cent in 1935-39, according to the Spectator Yearbook which compiles records of life insurance companies. A decline of 17 per cent in the annual rate of interest has presented the life companies with a serious problem. It has meant lower dividends to policy owners and increased premium rates.

Individual investors have suffered a similar experience. Low interest rates have enabled many companies to refund bonds and preferred stock issues with new securities

bearing lower coupons and dividends. It has been increasingly difficult to replace such issues except at a loss of income return or with issues carrying a lower quality rating.

Like the life companies and the individual investor, colleges and universities with large endowment funds to administer have been forced to cope with the problem of reduced investment income. Commenting recently on the trend of college investments, The Exchange, official publication of the New York Stock Exchange, revealed that eight institutions having endowments in excess of $15,000,000 had increased the percentage of their common stock holdings from 15.9 per cent in 1936 to 29.3 per cent at the end of 1940. A study by the American Council on Education Studies disclosed that 120 leading colleges and universities with funds aggregating $1,263,653,000 had slightly over 24 per cent of this amount invested in common stocks.

An administrative officer handling college endowment funds, commenting on the increasing percentage of common stocks acquired, stated, "We have gradually increased our percentage of common stocks, feeling that perhaps the difference in yield between this type of investment and highest grade bonds is too wide at the present time. An equally obvious fact is that our percentage of bonds has continued to decline, due to our policy of not replacing called bonds with high grade, low-coupon, long-term issues. The increase in our income rate during the past year was due principally to larger dividends from common stocks."

Of equal interest were the quoted comments of a New England college—, "We aim to carry 50 per cent in common stocks, a classification in which are included certain low grade bonds and preferred stocks as equities. . . . Our theory is that equities afford a necessary hedge against inflationary tendencies."

The survey mentioned here further revealed that the 20 institutions having the best rate of return on their investments for the year ended June 30, 1940, ranged from 4.43 per cent to 5.86 per cent. This group of companies had 17.5 per cent of their funds in common stocks.

S E C Support

The latest development, toward liberalizing the provisions governing life insurance investments, is the authoritative report that the Securities Exchange Commission will endorse the movement. The S E C has no jurisdiction over state insurance laws, but the weight of its opinion can be counted on to be an effective consideration with legislators. Moreover, the S E C is keenly interested in enlarging the investment scope of life companies as a means of arresting the growing policy on their part to purchase an entire new issue of bonds. This has the double-barreled effect of seriously restricting the supply of high grade bonds available to the public, savings banks and trustees, and placing an increasing concentration of debt obligations with major insurance companies. The S E C is understood to favor the inclusion of certain types of common stocks in insurance portfolios, as well as easing the present restrictions on preferred stocks.

It is a fair assumption that these recent trends and developments could never have occurred unless the case for common stocks as *investments* was adequately supported by facts and figures. Moreover, it is certain that if the present provisions are liberalized, the legislation will incorporate definite standards and restrictions governing the choice and extent of common stock investments by life companies. It is noteworthy, however, that legal restrictions governing the investments of life companies as well as those of savings banks and trust funds merely establish the standard; in actual practice they have worked about as well as could be expected but there have been defaults among these legalized investments. No investment yardstick has yet been conceived, based on rigid requirements and lacking the flexibility to safeguard against future contingencies, which worked perfectly. In New York State, for example, literal interpretation of legal requirements would have made it quite possible to hold, even purchase, certain legal railroad obliga-

Selected Common Stocks with Outstanding Record of Continuous Dividends

Company	Dividends Since	Company	Dividends Since
Pennsylvania R.R.	1848	Texas Corp.	1903
Pullman	1867	Du Pont	1904
Westinghouse Air Brake	1875	Sun Oil	1904
American Tel. & Tel.	1881	American Tobacco	1905
Diamond Match Co.	1882	Link-Belt	1906
Standard Oil of N. J.	1882	National Lead	1906
Consolidated Edison	1885	National Steel	1907
Commonwealth Edison	1890	Owens-Illinois Glass	1907
Procter & Gamble	1891	International Harvester	1910
Coca-Cola	1893	Dow Chemical	1911
General Mills	1898	May Department Stores	1911
Borden	1899	Socony-Vacuum	1911
General Electric	1899	F. W. Woolworth	1912
National Biscuit	1899	Hercules Powder	1913
United Fruit	1899	G. C. Murphy Co.	1913
Norfolk & Western	1901	Caterpillar Tractor	1914
Electric Storage Battery	1901	Union Tank Car	1914
Beech-Nut Packing	1902	General Motors	1915
Eastman Kodak	1902	Int'l Business Mach.	1916
Kroger Grocery	1902	Melville Shoe	1916
Sterling Products	1902	Columbian Carbon	1916

Dates include dividends paid by major predecessor companies.
Above companies selected from lists compiled by New York Stock Exchange.

tions virtually right up to the time of their default.

Any basis which may be ultimately set up for determining which common stocks would be suitable for insurance investment will undoubtedly establish certain minimum requirements with respect to capitalization and financial position, with considerable stress given to the past record of earnings and dividend payments. That a particular company has had a distinguished record of earnings and dividend payments is, of course, no guarantee that a similar record will be maintained under the conditions of the unpredictable future. At the same time, and in the absence of a better criterion, it must be granted that a common stock with an unbroken record of dividends dating back ten, fifteen and twenty-five years has acquired a definite hallmark of quality.

According to a recent compilation by the New York Stock Exchange, a total of 125 listed common stocks—or more than one-seventh of the entire Stock Exchange list—have paid dividends consecutively for more than twenty-five years. The number of issues with unbroken dividends for twenty years or longer, totaled 155; fifteen years, or more, 212; ten years, or more, 266; and five years, or more, 430. Nearly one-third of the common stock list came through the depression of the 1930's without eliminating dividends in any year. In the decade from 1930 to 1940, common stocks listed on the New York Stock Exchange paid $19,650,000,000 in dividends—or nearly three-fifths of the current market value of all listed common shares.

Of equal interest was another compilation made by the New York Stock Exchange, this one at the request of the joint legislative committee investigating the possibilities of permitting life insurance companies to invest in common stock. The Exchange selected twenty common stocks and made a hypothetical investment of $100,000 in each of them twenty years ago. The choice of common stocks was limited to seasoned issues such as American Telephone & Telegraph, General Electric, General Motors, Corn Products Refining, International Harvester, National Biscuit, American Can and others of like calibre. The capital investment of $1,978,250 made on January 1, 1921, had increased in value (including stock dividends) to $8,562,651 by January 1, 1941. During the period total dividends received amounted to $7,854,837.

Applying the same procedure to ten selected preferred stocks, the appreciation in capital over the twenty-year period amounted to $357,113 and cash dividends totaled $1,291,290.

Granted that in both instances the lists of securities were hand picked, it is to be doubted that if they had been actually selected twenty years ago by *life insurance companies,* the choice would have varied greatly. These were shares of companies which even then stood at the top of their field and invited the confidence born of seasoned industrial experience and substantial assets and earning power. Life insurance companies are compelled to think in terms of their obligations to policyholders ten, fifteen and twenty years from now and it is the seasoned companies which must be conceded the best chance of staying in business as going and profitable concerns twenty years hence. When an insurance company acquires a block of long term bonds, quite possibly they may be held undisturbed until their maturity. Other things being equal, interim fluctuations in the value of such bonds are of minor importance. Insurance companies are primarily concerned with over-all results produced by their investment portfolios. Investment risks are reduced to a practical minimum by their ability to spread their funds over an exceptionally broad diversification of securities.

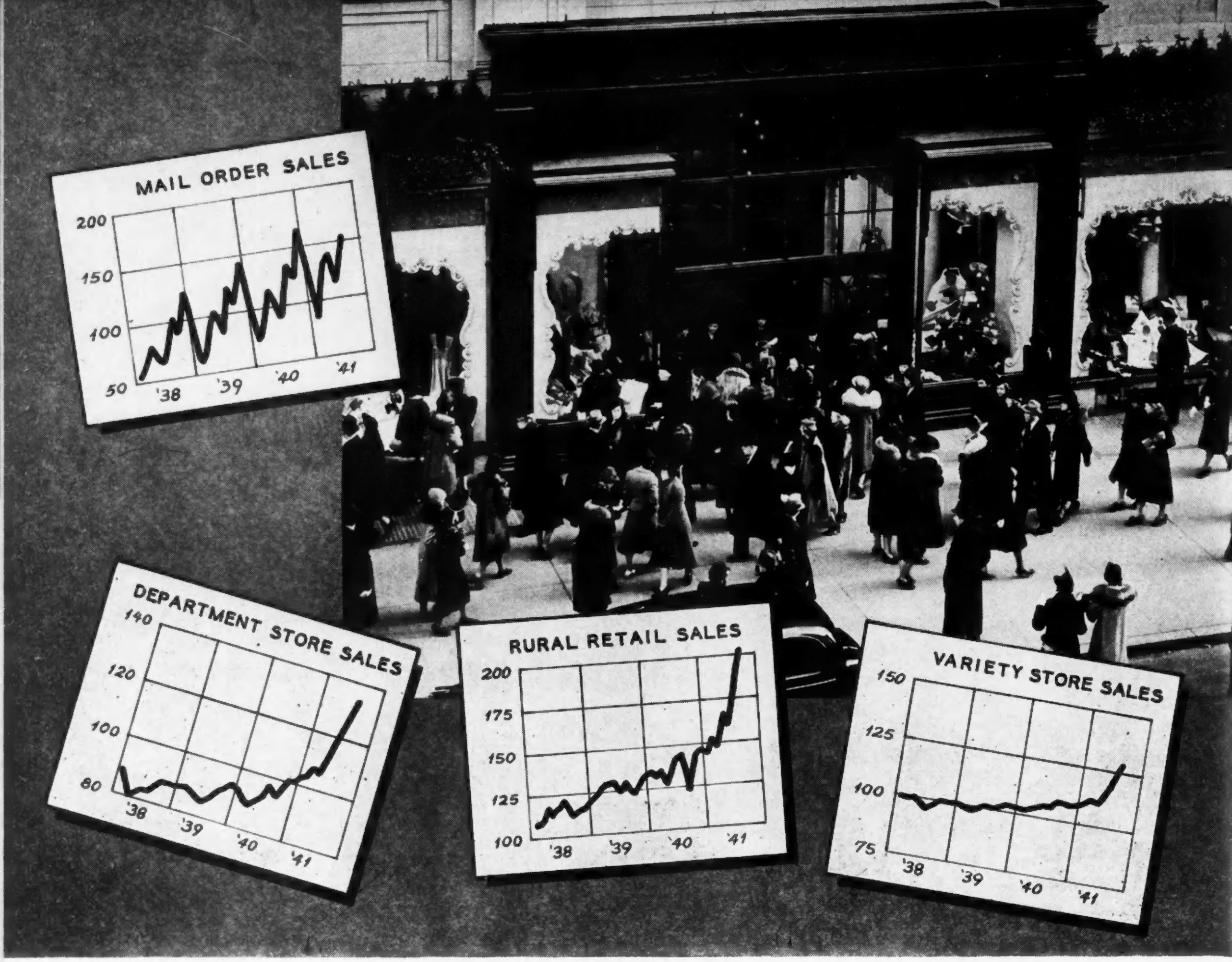
It is impractical, however, for the average investor always to employ the same technique with respect to his own investments. Certain contingencies may arise which would make it necessary to withdraw funds from securities for emergency or special needs. Invariably such emergencies are likely to occur when security values are low, and liquidation requires the acceptance of a loss. Frequently income requirements make it necessary for the investor to allot a greater portion of his funds to high yielding securities at the expense of the more stable, but low yielding bonds and preferred stocks. And finally, the individual investor frequently makes the mistake of putting the stress on capital enhancement, and going too far afield in his search for a speculative "winner."

In the long run the value of any common stock will be determined by its ability consistently to earn and pay a reasonable dividend. "Flash in the pan" earnings may provide a temporary speculative lever, but they have little or no bearing on *investment* values. It is only necessary to look at the exceptionally low valuations which are placed on the recent earnings of those companies largely dependent on defense orders to realize the skepticism with which the the permanency of these earnings is regarded. Many of these issues are quoted currently at three to five times (*Please turn to page* 51)

Common Stock Suggestions for Income

Issue	Recent Price	Dividend	Yield
American Tel. & Tel.	153	9.00	5.84
Borden Co.	21	1.40	6.67
National Biscuit	18	1.60	8.89
United Fruit	74	4.00	5.41
Electric Storage Battery	31	2.00	6.45
Kroger Grocery	29	2.00	6.90
Sterling Products	62	3.80	6.13
Texas Corp.	40	2.00	5.00
National Steel	50	3.00	6.00
May Department Stores	54	3.00	5.56
G. C. Murphy	73	4.00	5.48
Union Tank Car	28	2.00	7.14

These issues have been selected from accompanying list of outstanding dividend records.



Ewing Galloway Photo

Weighing the Pros and Cons of the Consumer Industries

BY H. F. TRAVIS

We, the people, will earn and spend more money this year than ever before. In satisfying our wants, we nevertheless are becoming aware of the restraints on our freedom and range of choice imposed by the necessities of the armament program. Now that military requirements are absorbing an increasing percentage of total productive effort and impinging on the output of consumers goods of various kinds, we must inevitably resort to a simpler mode of daily living and be content with selections from the numerous items which are unlikely to be diverted seriously.

The problem as it affects investors can readily be resolved by considering the relationship of the consumer goods industries to the demands of the Federal Government and the needs of civilians. Obviously, no definitive solution can be offered, since almost everything is subject to change with time and circumstance. However, this discussion is intended to provide a concrete basis for weighing the diverse effects of the new governmental and economic factors on the consumer goods industries, and to demonstrate that the outlook, while perhaps cloudy and even dark for some, is relatively bright for others.

The national income, which represents the sum total of goods and services produced and exchanged, is currently running at an annual rate of about $90 billion. Considering the sharp boost progressively expected during the remainder of the year, various authorities estimate a national income for 1941 of between $90 and $100 billion, compared with about $75.7 billion for 1940.

Defense outlays currently are running at an annual rate of around $18 billion, or some $1.5 billion per

month. According to the Office of Production Management, defense spending on a checks issued basis increased from $737.2 million for January of this year to $1,172.0 million for August. The same authority predicts that defense work expenditures will amount to $3 billion a month by February, 1942.

Defense currently absorbs around 17 to 20 per cent of the national income. The vast effort of organization for arms production is rapidly yielding the results desired, and it is probable that close to one-third of the country's total productive effort will soon be devoted to war needs.

By comparison, Great Britain is diverting some 50 per cent of its national income to the war effort, while in Germany the percentage is believed to be around 55. Both relatively and on a money basis adjusted for lower costs abroad, the outlays of the two principal European combatants far exceed the effort thus far made here. From now on, the impact of our defense production will increasingly affect each of us, since much of the slack in unemployment and idle plant already has been taken up.

Consumer Goods Dominate Production

The rapidity with which the arms program has developed and must proceed has made it impossible to augment productive capacity both for military and civilian requirements. The nation therefore is unable to produce, or import, all of the raw materials necessary to meet the requirements of an all-out armament program and the full demands of the civilian population at the same time. The vast expansion in demand has occurred in a relatively short period, and is directly the cause of the shortages which have necessitated the imposition of priorities.

Direct and indirect defense production, fulfillment of Lease-Lend requirements, and the services essential to the public welfare take precedence over civilian needs. To expedite arms production, the defense machinery has recently been reorganized under the Supply Priorities and Allocations Board. To help prevent as many dislocations as possible, and to promote wider subcontracting, a new Contracts Distribution Division of the OPM has been established.

The inauguration of centralized planning under SPAB marks the beginning of a more clearly defined war economy. Defense production and priorities will be more completely organized. A survey of military and civilian requirements will provide the basic knowledge of what additional raw material shortages and shut-downs are impending as defense forges ahead. The huge extent of previous forward buying by industry and consumers may necessitate progressively stricter application of defense priorities, with direct allocation of raw materials and more thorough investigation and control of inventories indicated as a potential threat to business and earnings of some companies whose inventory "hoarding" may have conflicted with the national armament program. On the other hand, direct apportionment of scarce supplies may check priorities shutdowns especially among smaller units of the consumer goods industries by spreading reductions while assuring delivery of alloted supplies.

Upwards of 300 items presently are included in the Priorities Critical List, which has been revised repeatedly, while over 35 items have been placed under industry-wide control. The total amount of consumers goods and materials currently produced approximates 80 per cent of all production, with the balance composed of defense goods and non-defense capital goods.

Curtailment is most certain to be drastic in production of consumers durable goods, which compete directly with defense for scarce materials. The scarcity of qualified managerial ability, of skilled labor, and of diverse productive and plant facilities also dictate the necessity of cutting down the output of certain durable civilian supplies perhaps more than would otherwise be required. Thus, the December automobile production quota restricts output 48.4 per cent below last December. Since the quota for the four months through November will curtail output only 26½ per cent below the like period of 1940, and an overall cut of 50 per cent for the full model year is desired, succeeding quotas probably will be reduced proportionately.

Selected List of 30 Consumers' Goods Common Stocks

	Earned per Common 1940	Latest Interim 6 mos.	Recent Price	Dividends 1940	Dividends 1941(a)	Current Yield (b)
Dairy Products						
Beatrice Creamery..	$3.19(c)	$1.93	26	$2.00	$2.00†	7.69%
Distilling						
*National Distillers.	3.28	1.01	23¼	2.00	2.00	8.60
Drugs						
*Bristol Myers.....	3.73	1.95	43	2.55	1.80	4.19
Sterling Products...	5.30	3.08	62½	3.90	2.85	4.56
Meat Packing						
Swift & Co........	1.89(e)	....	23½	None	None	..
Wilson & Co.......	0.84(e)	....	6⅛	None	None	..
Motion Pictures						
Gen'l Thea. Equip..	1.45	0.88	12⅝	0.85	0.75	5.15
*Loew's, Inc.......	4.82(f)	3.92(m)	37¼	3.00	1.50	4.03
Paramount Pictures..	2.10	1.56	13⅞	0.45	0.65	4.68
Retail Trade: Variety						
Jewel Tea.........	2.82	1.35	33¾	2.40(p)	2.40	7.11
S. H. Kress........	2.09	....	27¼	1.60	1.20	4.40
*G. C. Murphy....	6.58	....	72½	4.00	3.00	4.14
Dept. Stores						
*Allied Stores.....	1.57(g)	0.48	7⅜	None	None	..
Associated Dry Gds	1.87(g)	Nil	8¼	None	None	..
Gimbel Bros.......	1.21(g)	0.11	7¾	None	None	..
Marshall Field.....	2.47	0.63	15	1.30	0.70	4.66
Mail Order						
Montgomery Ward.	4.14(g)	1.27	32¼	2.75	2.00	6.20
*J. C. Penney.....	5.91	2.56	83½	5.00	2.25	3.69
Sears, Roebuck....	6.32(g)	2.25(n)	70½	4.25	2.25	3.19
Shoes						
Endicott Johnson...	3.20(h)	4.88(o)	46¾	3.00	3.00	6.41
Florsheim Shoe A..	2.74(e)	1.30	22½	2.00	2.00	8.88
Melville Shoe.....	2.96	1.38	32⅞	2.25	2.00	6.08
Textiles						
*Cluett, Peabody...	3.74	2.11	36	2.75	2.00	5.55
Industrial Rayon....	3.15	2.02	26½	2.00	1.50	5.66
Manhattan Shirt....	2.20(h)	1.10	15	1.20	0.75	5.00
North Am. Rayon..	3.18(k)	1.24	20	2.50	1.50	7.50
Pepperell Mfg.....	19.22(1)	....	87	6.00	7.00	8.03
Tobacco						
Bayuk Cigars......	4.78	1.93	26¼	1.00	1.12	4.26
Consolidated Cigar.	2.25	0.67	13	1.75	....	..

* These stocks are discussed in detail on succeeding pages. (a)—Paid or declared this year to date. (b)—Based on 1941 dividend payments to date. †—Indicated annual rate. Fiscal years ended: (c)—Feb. 28, 1941; (e)—Oct. 31; (f)—Aug. 31; (g)—Jan. 31, 1941; (h)—Nov. 30; (1)—June 30, 1941. (k)—Combined Class A. & B. (m)—40 weeks ended June 5.] (n)—24 weeks ended July 16. (o)—12 mos. ended May 31. (p)—Plus 100% stock dividend.

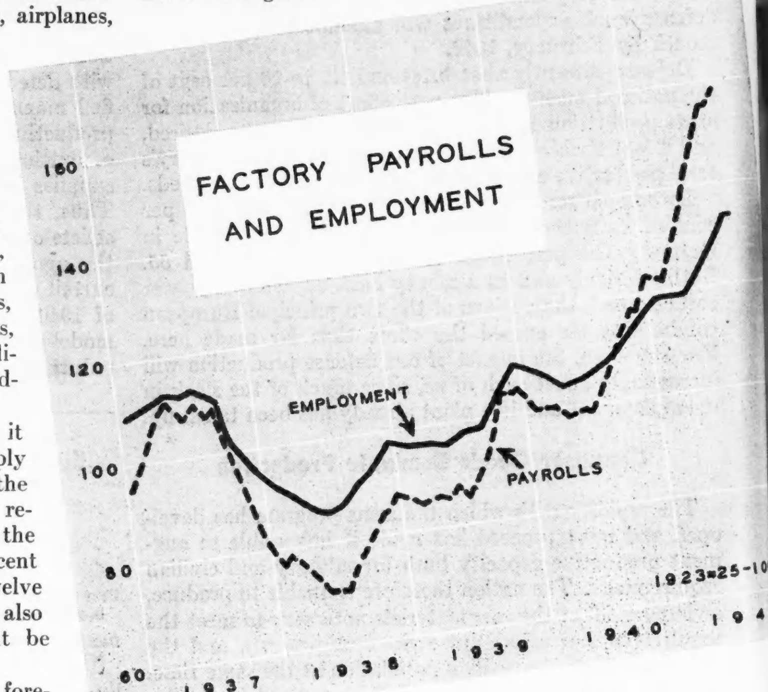
Other industries hard hit by the raw materials crisis have either been advised of curtailment schedules or are aware that reductions are being considered. Almost all consumer goods industries which are large users of metals required for guns, shell casings, ships, tanks, airplanes, and similar items, as well as those producers of civilian goods requiring rubber and plastics, will be affected by material shortages.

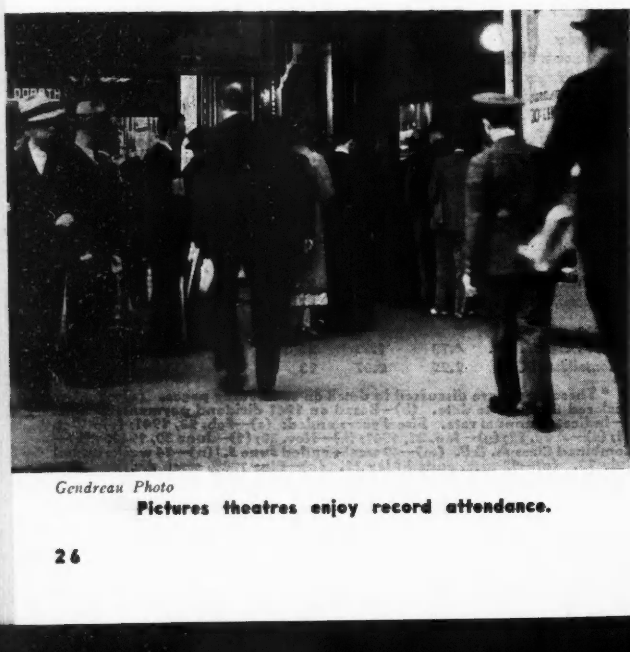
Prominent among such users of metals (other than the automobile industry) are producers of household refrigerators; kitchen and other household equipment, including kitchen cabinets, washing machines, irons, vacuum cleaners, electric appliances (such as fans, coffee makers, hot plates), stoves, heating equipment, metal furniture, radios, and phonographs; refrigeration and air conditioning equipment; and makers of metal vending machines.

The foregoing list is not all inclusive, and it may be that forced curtailment will not apply to all of the items mentioned. However, the household refrigerator industry has just recently been ordered to cut production for the last five months of the year by 43.2 per cent under the average monthly output for the twelve months ended last June 30. The industry also was warned that greater reductions might be expected in 1942.

Being plentifully supplied with cash, and foreseeing shortages in certain lines, Mr. and Mrs. Public have been going on a buying spree. Thus far the national emergency has imposed few restraints on the satisfaction of individual desires. Shoppers are taking nothing for granted, however. The rush to buy silk stockings is an example while numerous other instances obtain in durable goods.

Durable consumers goods have been bought in such large quantities that several astute observers of economic trends predict an impending decline in demand apart from actual or potential restrictions on output. The Census Bureau reports August sales of independent retail stores as 23 per cent ahead of the corresponding month last year. Reporting department stores had sales 30 per cent higher than for August a year ago. The sharp advance was led by the durable goods lines. The greatest increase for the month, 61 per cent, was recorded by retailers of radio and musical instruments, followed by household appliance dealers with 50 per cent, and heating-plumbing equipment dealers with 49 per cent. The gain for all kinds of business combined was 26 per cent, a greater increase on a year-to-year basis than has occurred in the five years the survey has been in existence. An improvement of 20 per cent was displayed during the initial eight months over the like period last year.





Gendreau Photo

Pictures theatres enjoy record attendance.

The record of wholesale sales has been equally impressive. The August increase over the like month last year was 38 per cent, or slightly less than the peak year-to-year gain of 43 per cent for July, according to a compilation of the Department of Commerce. With the exception of a 75 per cent gain in liquor sales, which was associated with the revision in tax rates, wholesalers of durable goods continued to show the largest advances.

Statistics without number might be mentioned, but practically all would lead to the same conclusion: total consumer expenditures this year will considerably exceed 1929 levels. The greatest gains have been reported by merchandisers of durable goods and by retail stores located in regions with major defense industries. The rate of gain in retail sales has accelerated in the last two months, partly in expectation of shortages in certain lines, especially durable consumers goods. Mention might here be made that August sales of household refrigerators were the highest ever recorded for the month.

Record employment and overtime pay spell bulging

Ewing Galloway

pay envelopes and enlarged pay checks. Both are largely the result of defense and allied activities.

Prospects for favorably situated segments of the consumer goods industries also may be gauged from farm income (one of the more important business factors), which is considered almost certain to attain the highest level this year since 1929 and may in fact be the highest in 20 years. Agricultural prices for the month ended September 15 averaged 43 per cent higher than a year ago, and were at the highest level since February, 1930. The sharp climb in part reflects an upturn in demand for agricultural products, stimulated by the steep rise in incomes of industrial workers during the last year, rather than a shortage of supplies. In addition to the recovery in consumption, the price gains may be attributed to the influence of political groups representing agriculture. (Political factors also account for many wage increases obtained by organized industrial workers.)

Best Demand Prospects in Necessities

The conclusions to be derived from analysis of the demands of the Federal Government and the needs of civilians is that aggregate consumption henceforth will be determined less by gains in income payments than by the relative availability of goods and services. When consumer durable goods demand recedes, either because needs have been satisfied, the goods are no longer obtainable, or a combination of these, available consumer purchasing power will flow more abundently into fields in which shortages are non-existent or seem likely to be relatively unimportant. Consequently, the consumer industries with the best demand prospects are largely confined to producers or caterers of basic necessities, such as food, clothing, public health, and entertainment. Such industries include meat packing, dairy products, textiles, shoes, retail trade, drugs, motion picture, tobacco, and liquor.

While the nature of consumer demand will change as material and equipment shortages (and perhaps at a later stage, labor) restrict production of specific items, the increased taxes and savings required of individual citizens by the Federal Government will absorb only part of the increase in total money payments. If the supplies unaffected by the armament emergency cannot be increased sufficiently to meet the potential new demand, the prevention of too rapid price advances will necessitate further measures for absorbing civilian funds and perhaps general price fixing. Already plans are afoot for a more aggressive sales campaign on defense bonds, and some form of compulsory savings may be adopted. The proposal to increase social security taxes substantially and bring a vast number of individuals not presently covered within the scope of the program is intended to augment Government revenues and provide a mild curb on consumer spending. The preliminary steps toward avoidance of serious price inflation already have resulted in restrictions on installment buying, but more drastic credit controls may be required in time.

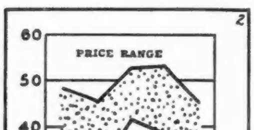
The Revenue Act of 1941 makes virtually every nonessential occupation and purchase subject to tax. Never before have there been so many taxes. The number of Federal income tax payers will be sharply increased next March 15, and a good many millions will pay considerably more taxes than heretofore. Nevertheless, the income taxes to be paid by individuals will not drain off all of the increased earnings by any means. Individuals with stable incomes and those in the higher tax brackets may find themselves with less income after taxes. However, the bulk of the earnings gains has been in the lower income groups, which customarily spend all or most of what they earn. *(Please turn to page 55)*

Ewing Galloway

Expect good retail shoe demand to support record production.

Seven Favored Consumer Goods Stocks

Bristol-Myers Company



Now selling around the highs for the year is the common stock of Bristol-Myers, the third largest domestic producer of proprietary drug products. Through development of new lines and aggressive sales promotion, the company has recorded consistent sales increases since 1933, except for a minor setback in 1938 which reflected general business conditions prevalent that year. The ratio of net profits to sales has tended to decline as a result of development expenses, lowered selling prices, and heavy advertising outlays, but a new peak in earnings is expected this year.

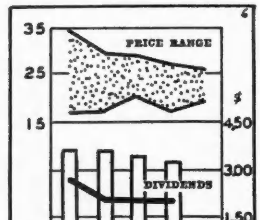
While no particular change in profit margins is looked for, and taxes will be restrictive, continuation of the sharp sales gains of the first half in reflection of better general business conditions is expected, and full year earnings should substantially exceed last year's returns of $3.73 per share.

Quarterly earnings thus far have run well ahead of last year, and first half earnings amounted to $1.95 on each of the 667,253 common shares, the sole capitalization, after allowance for heavier taxes. For the corresponding period a year ago, the company earned $1.67 per share. Seasonally, the first and third quarters are the biggest sales periods. Domestic sales of the two major products, Ipana toothpaste and Sal Hepatica, should continue to expand in line with the company's aggressive advertising, while foreign sales also should be higher. In addition to its widening line of proprietary medicines, and Ipana toothpaste, Ingrams shaving and milkweed creams, Vitalis hair dressing, and Rubberset brushes figure importantly in sales.

Inasmuch as earnings are expected to attain a new peak, the probabilities are that the regular $2.40 dividend rate will be supplemented by a year-end extra, such as the $0.15 paid last year. The stock consequently is regarded with favor as an income producer. Characteristic of the company's balance sheets is a strong financial position, with cash well in excess of current liabilities.

The industry would be in a bad way if anything resembling Mr. Morgenthau's suggestion of a 6 per cent profit limit should ever be adopted by the Congress. The industry's vulnerability to any change in excess profits legislation which would eliminate the average earnings base may be gauged by an average return for 23 companies of 20.7 per cent on net worth in 1939. Last year, Bristol-Myers earned about 30.4 per cent on invested capital. However, there seems little reason to fear so drastic a tax change, at least during the foreseeable future.

National Distillers Products Corp.



The shares of National Distillers have lately attracted more than usual market attention because the industry is not subject to priorities or rationing and sales volumes are expected to expand with increased consumer incomes. Now selling only moderately below its 1941 high, the search for reasonably secure high dividend returns to average up income from security lists has no doubt fostered interest in the stock, which returns a comparatively high yield from a $2 annual dividend, maintenance of which is indicated by ample earnings coverage.

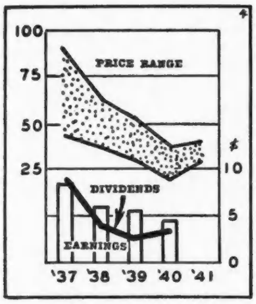
Profits have been more stable than usual in the industry, but price cutting in the first quarter of the year together with provision for heavier taxes in the second quarter cut returns for the initial six months to $1.01 from $1.19 for the like 1940 interval. Third quarter results should reflect the heavy advance buying in anticipation of the excise tax increase and compare favorably with the $0.37 reported per share for the September quarter last year. Barring extreme competitive conditions as an aftermath of heavy consumer stocking, full year profits of around $3 per share are indicated, as against $3.28 for 1940. The increased excise tax of $1 a gallon will of course be passed along to consumers.

The major portion of the corporation's relatively strong working capital position has consisted of ample supplies of low cost inventory, which is an advantage under prevailing conditions. The enterprise is particularly well supplied in bonded brands, where demand should expand. Its leading bonded whisky brands include such well known names as Old Overholt, Mt. Ver-

non, and Old Taylor, while Gilbey's Gin is esteemed for cocktails.

The 2,045,451 common shares (without par value) of this oldest enterprise in the liquor industry are preceded by some $21 million of convertible debentures.

Loew's, Incorporated



The common stock of Loew's is among the equity issues of favorably situated companies in the consumer goods industries which have responded marketwise to the implications of expanding consumer incomes coinciding with actual or indicated curtailment in production of goods which compete with the armament program for scarce raw materials. Expectation of increasing diversion of buying power from consumer goods made scarce by defense has resulted in an intensification of selective security buying, and a number of issues not subject to priorities or other impediments on production of goods and services consequently are selling not far from the highs for the year, whereas the market averages have performed less favorably.

Loew's has long been a favorite investment medium in the motion picture group. Of the five leading film companies, Loew's alone was able to operate profitably throughout the great depression. Operations are fully integrated, and include the production, distribution, and exhibition of features, shorts, and newsreels under the name Metro-Goldwyn-Mayer. As the leading producer of better-than-average feature films, the enterprise has generally been able to secure favorable rental rates and playing dates. It now stands to benefit importantly from the operation of some 129 domestic theatres (heretofore lesser contributors to earnings), which are located for the most part in the eastern part of the country, mainly in metropolitan centers.

Foreign interests include an investment of some $3.5 million in Gaumont-British Picture Corp., a picture producer and owner of many theatres in Britain. Prior to the war, around 30 per cent of film rentals but a smaller percentage of aggregate income was received from abroad. Although income from foreign sources has been sharply reduced, greater control of production expenses has permitted realization of good earnings. A favorable augury, however, is the negotiations reported under way for more liberal transfer of blocked British funds, while the promotional activities in Latin America should augment foreign receipts.

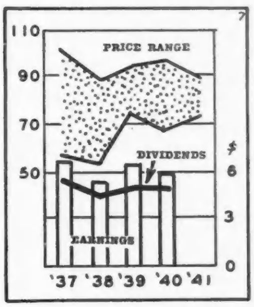
Earnings for the fiscal year ended last August 31 are believed to have equalled around $4.50 per common share. While somewhat below the showing of $4.82 for the fiscal year ended August 31, 1940, the comparison is not regarded as poor, since the successful feature "Gone With the Wind" augmented receipts in the earlier year. Rising attendance records and the release of popular pictures have resulted in a sharp upturn in more recent profits, however. During the forepart of the fiscal year recently ended, profits ran well below year-earlier levels, being $1.76 for the sixteen weeks through mid March as against $3.08. The showing was reversed in the twelve weeks ended early in June, with $1.12 as compared with $0.60 for the corresponding period of 1940. The lag in profits was all but made up as the fiscal year advanced.

Prospects are favorable for a continuation of the upturn in earnings over coming months as higher consumer incomes stimulate theatre attendance and revenues, as well as film rentals. Taxes will moderate earnings gains, however.

Dividends thus far this year have consisted of three quarterly payments of $0.50 each, and it is probable that the final quarterly dividend will be supplemented by a $1 extra, bringing total dividends to $4 per common share, or the same as for 1940. The stock consequently has appeal both for the promising earnings outlook and the good yield.

The 1,665,713 shares of common stock without par value are preceded in the capitalization by 136,722 shares of $6.50 cumulative preferred stock and some $31 million of funded debt.

J. C. Penney Company



With farm income this year likely to attain the highest level since 1929, if not for the last twenty years, and industrial workers more amply supplied with cash than ever, J. C. Penney has scored wide sales gains over last year and is well on the road toward another sales record. The percentage gains in sales over like 1940 periods amounted to 20.2 for the initial eight months ended August, and 32.2 for the month of August alone.

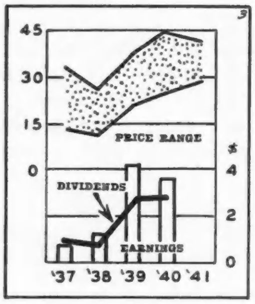
Operator of the largest chain of junior department stores, J. C. Penney specializes in cash sales of clothing, dry goods and other textile merchandise, and priorities will have little effect on its business. On the contrary, priorities on other types of consumer goods should permit the company to capitalize on the diversion of consumer purchases to the "soft" types of merchandise. With some 1,586 stores, located mostly in the smaller cities of practically every state, but largely in states west of the Mississippi, the enterprise is adequately equipped to cater to non-luxury consumer demands.

Larger unit sales and moderately higher price trends promise further gains in operating efficiency and should more than offset increased merchandise costs and wages, thus permitting sharp advances in operating income to cushion the impact of higher taxes. For the initial six months ended June 30, last, the company reported a net profit equivalent to $2.56 per common share after allowance for heavier taxes. In fact, net profit for the period was up nearly $1 million over the corresponding 1940 interval after appropriation of approximately a like amount to cover expected Federal tax increases. Based on 2,743,984 shares without par value, which represent

the sole capitalization, earnings for the first half of 1940 were $2.24 per share. Full current year results after taxes should moderately exceed 1941 earnings of $5.91 per share.

Because of a strong financial position, the company has been a liberal dividend payer in relation to earnings, and the regular quarterly 75 cent rate probably will be augmented by a year-end extra, bringing total dividends for the year to the 1940 level of $5 per share.

Cluett, Peabody & Co.



This company's sales in all divisions have been progressing at a favorable rate, and a new record is foreseen for this year. Its sanforizing subsidiary, which contributes generally from one-third to one-half of profits, has been especially active. Since the second half of the year is normally the best in point of volume and profits, indications are that results for 1941 will exceed the $3.74 per common share reported for 1940, despite higher taxes and costs.

Sales of nationally promoted shirtings and a diversified line of men's furnishings should continue to respond to increments in consumer incomes, while the increasing number of sanforizing machines being placed in operation give promise of a new peak in the concern's royalty income.

The new sanforset process for controlling shrinkage of viscose rayon fabrics, introduced last year, also is making progress at a time when rayon yarns are rapidly supplanting embargoed silk.

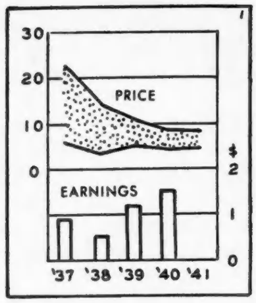
Price advances of 12½ per cent on its fancy shirts were recently announced by the company, which previously had indicated an intention to maintain prices unchanged if possible for the 1942 spring line. Existing price levels on staple white shirts are to be maintained for the present. The change in price policy is designed to protect the company directly against rising costs and raw material prices.

For the first half of 1941, the enterprise reported earnings equivalent to $2.11 per common share, computed on the basis of then existing tax laws, compared with $1.65 for the corresponding 1940 period. Balance sheet items as of June 30, last, disclosed continuation of a comfortable financial position, with cash alone well in excess of current liabilities.

Recent buying of the common stock has reflected indications of well-maintained earning power, coupled with a satisfactory financial status, and the belief that dividends may top the $2.75 total declared in 1940. Thus far this year, the company has declared three interim dividends aggregating $2 per share, whereas three interim payments totalling $1.50 per share were made in the like 1940 period.

Outstanding capitalization consists of 33,970 shares of $7 cumulative preferred stock and 677,844 shares of no par value common stock.

Allied Stores Corporation



Not in a class with the other stocks analyzed in this group, but meriting consideration as an outright speculation on recovery of earning power resulting from heavier consumer demand, is the common stock of Allied Stores. The issue is evaluated modestly around current price levels, both in relation to reported earnings of $1.57 per share for the fiscal year ended January 31, 1941, and the recent upturn which promises an interesting level of net returns, despite higher operating costs and taxes. With net sales up 21 per cent over the like period of 1940, the company showed $0.48 available for the common stock in the six months ended July 31, last, after allowance for heavier taxes, whereas a deficit of 7 cents was recorded for the period last year. On the basis of present trends, indications are that earnings for the fiscal year to end January 31, next, will exceed $2 per common share, or substantially more than recorded at any time by the present company or its predecessor, Hahn Department Stores.

Most of the 60 subsidiary operated stores, including 33 moderate sized department stores, are located in industrial cities benefitting from defense spending. Estimates are that only about 4 per cent of the principal lines of merchandise carried will be affected by priorities. Larger volumes, higher mark-ups, and controlled costs point to good earnings gains.

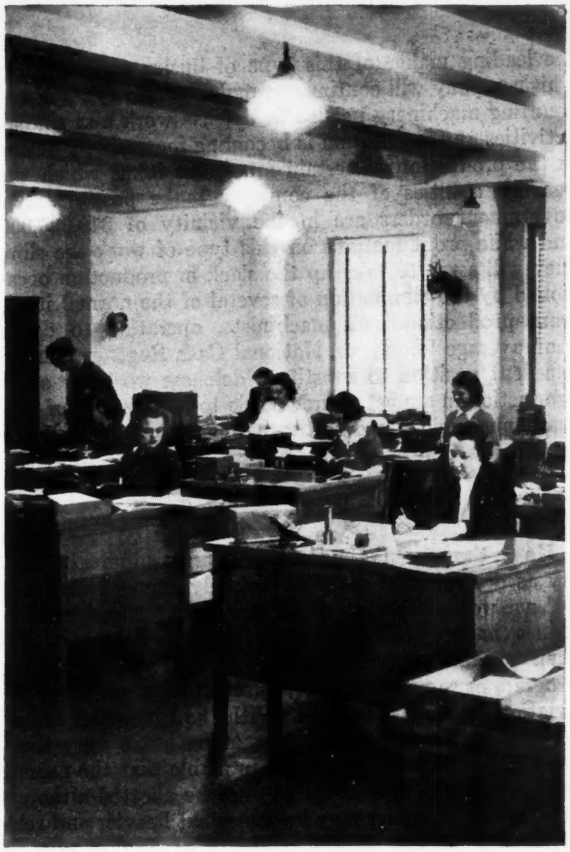
No dividends on the common stock have been paid since 1937 and resumption in the immediate future may be precluded by increased working capital requirements. However, the equity position is being improved by increased earnings and the reacquisition of debentures and preferred stock. At the close of 1940-1941, funded debt of $19,439,913 and 227,501 shares of $5 cumulative preferred stock outranked the 1,817,153 shares of no par value common stock.

G. C. Murphy Company

This enterprise is well situated to participate in the defense boom, since most of its chain of 204 variety stores are located in industrial areas where employment and wages are showing greatest gains. About half of its stores are located in Pennsylvania, and around one-quarter in the Pennsylvania steel areas. The balance are largely distributed in industrial sections of West Virginia, Ohio, Maryland, Indiana, and New York.

Priorities and price controls affect the company lightly, since whatever items so affected are included in its general line of goods retailing from 5 cents to $1 most probably can be replaced.

The company has followed a conservative expansion policy, and of recent years has concentrated on remodeling its outlets for better and more efficient operations. Increased operating efficiency and expanding sales per store have been more important than growth in numbers, and both sales and profits *(Please turn to page 51)*



Charles Phelps Cushing

Another Look At–

The Office Equipments

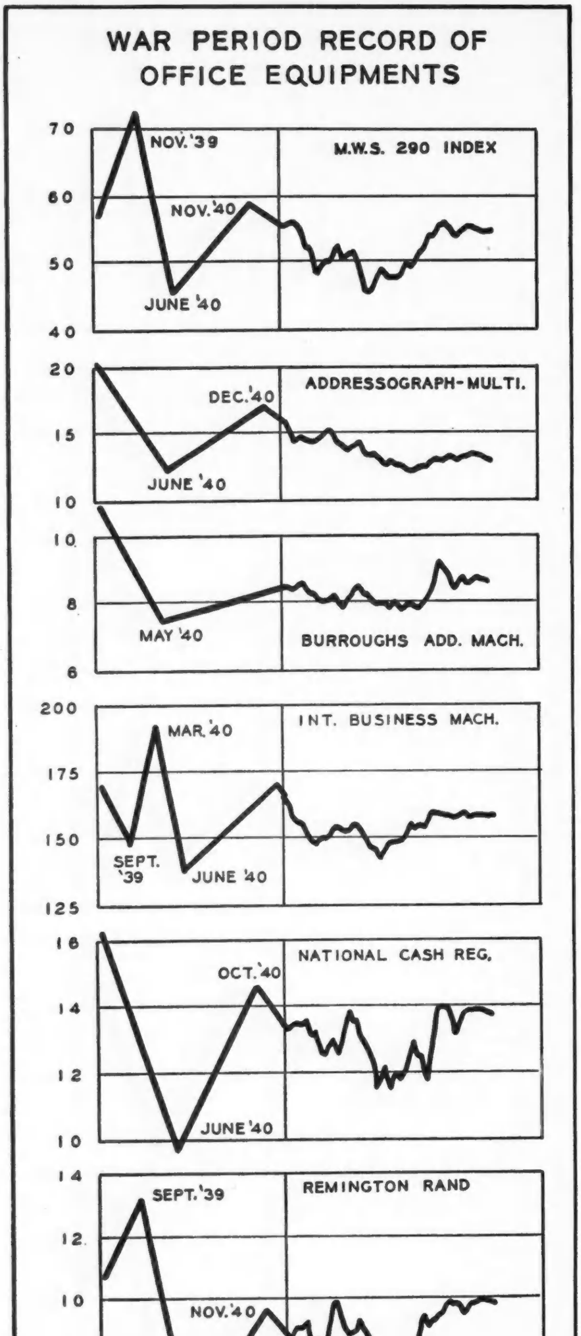
BY STANLEY DEVLIN

THE defense program and its many ramifications have resulted in a vast increase in the amount of record keeping and other paper work for both industry and government with the result that the demand for business equipment of a labor saving nature has been large. Sales have been running at close to record high levels, so much so that there was no normal summer decline in production this year. During the first half of the year, total sales of business machines and equipment of all kinds were approximately 33 per cent higher than a year ago. And this despite the fact that export sales—normally accounting for at least 20 per cent of the gross business of many of the leading equipment makers—were approximately 18 per cent lower than a year ago and were headed to still lower levels. In the same period of time, sales of steel furniture were 75 per cent higher than a year ago, reflecting the increased demand for this type of equipment from government agencies and to a lesser extent, from business in general.

While there is no immediate prospect of a decline in the demand for new equipment of all kinds, there is a probability that the translation of demand into completed sales will be smaller as raw material inventories are exhausted and priorities are enforced. It is therefore most likely that the present high levels of office equipment sales represent peaks for the duration of the emergency although the decline from this point on, may be slow in accelerating. There are certain types of business and office machines and equipment which are necessary to defense and until the demand is fairly well satisfied, it is probable that their manufacturers will be afforded high priority ratings for the needed raw materials. Typewriters are an excellent example of this. In the more recent months, approximately 40 per cent of all of the standard type machines have been shipped to the government while a substantial portion of the remainder has been purchased for the use of those closely concerned with defense work. Tabulating and classifying machinery has been in large demand for recording selective service statistics, price control records and many other similar purposes and as yet the government needs are far from being fully supplied.

But in order to supply the government agencies and industries whose interests are largely in defense activities with reasonably adequate quantities of new equipment, it has already been necessary for several companies to reduce their line of products by eliminating certain items intended for home use. This has been the case with Remington Rand, for example, who has suspended the manufacture of portable typewriters, all metal furniture and certain items of filing equipment. This instance is somewhat isolated but will probably be more general as existing inventories of steel and other raw materials are decreased. Due to the strict priorities on steel, manufacturers of steel furniture and similar equipment are actively canvassing for defense work either on a direct or subcontract basis. It is probable that most of them will be successful in their quest and will thereby minimize the more immediate effects of their inability to produce their normal items. As available supplies of needed raw materials become less, it will become increasingly necessary to conserve them through the reduction of output of such non-defense items as cash registers, metal furniture, steel lockers, shelving, etc.

The reduction of raw material supplies available for certain types of equipment such as just mentioned above does not of necessity mean that the company specializing in their manufacture will be forced out of business or that the gross amount of the business will be greatly reduced. This is exemplified by National Cash Register,



the leading maker of this type of business equipment. This company will continue to make certain types of accounting machinery needed in defense work and similar activities and in addition is becoming increasingly active in the production of certain munitions items which the peculiar abilities of the company make possible. Its government orders are in the vicinity of $18,000,000 and while profit margins on this type of work are slim, they will serve to take up the slack in production occasioned by the elimination of several of the normal items from production. As machinists, operating to closer than average tolerances, National Cash Register is in an excellent position to substitute defensse work for other production in almost a direct ratio to the amount of production capacity freed by the inability to produce regular items of trade.

Defense Work As Yet Small

Up to the present time, the business equipment industry as a whole has not been actively engaged in direct defense work. This is mainly because most business machines have been afforded high priority ratings and their production is equally as essential to the defense program as some of the more spectacular products of the aviation or other industries. With the typewriter industry, for instance, normally consuming but a very small quantity of steel yearly it is improbable that the normal requirements of this metal will not be allotted although the coming machines may be somewhat heavier and relatively clumsy due to the necessity of finding suitable substitutes for the small number of parts requiring aluminum, brass and rubber in their construction. Other office machines such as tabulating, sorting, computing and recording devices are also included in the group and until all government needs are supplied, there will probably be no appreciable decline in their output. But, after that time, it is probable that priorities will be withdrawn in favor of other, and more needed, items.

In common with other lines of endeavor, operating profits of the office equipment industry will be satisfactory and, in at least several instances, earnings before taxes are likely to reach new high levels for the period since 1930. However, it is also a fact that these same operating profits will be subject to the highest taxes of record and thus net income available for the shareholders will probably be in the vicinity of last year's earnings despite the fact that many instances of better than a year ago's earnings having been reported in the first half of the year. For almost all of the office equipment manufacturers, the post war period holds little promise. During the years of prosperity—1926 to 1930—office equipment sales reached record high levels. During the depression period which followed, so much equipment remained in the consumers' hands that it was not actually necessary to reorder or replace many items until 1937. Somewhat the same prospect faces the industry now as then. When the emergency is over, there will probably be enough serviceable equipment on hand to last business and industry for a long period of time. During such a period, the prospects of the business machine industry will probably be no better than they were during the recent depression period. The recently enacted excise tax on many types of business machines

should not be a burden to the industry for this particular tax will be passed on to the consumer without any real difficulty in view of the demand for the machines and the ability of the consumer to pay somewhat higher prices for equipment which serves to speed up the work on hand.

Among the larger manufacturers of business equipment will be found Remington Rand which, as has already been stated, has dropped certain items of civilian equipment in favor of strictly defense production. This company operates on a fiscal year which ends March 31 and therefore will not be liable for the latest tax rates until the beginning of the next fiscal period. On the 1940 tax basis, earnings for the first quarter of the current fiscal period were satisfactory, amounting to $0.67 a share as compared with $0.21 a share a year ago. Normally, the company's second quarter which ends September 30, is the poorest of the year since it includes the relatively inactive summer months. This year, however, the summer letdown has been much less than usual so that it is probable that Remington Rand's report for the second quarter will show better earnings than the $0.16 a share reported in the same months of 1940. The final six months of the 1941-1942 fiscal year should be the best reported for a number of years and will probably exceed those of a year ago, when the company earned $1.60 a share, by a fair margin. Since the company does not become subject to the 1941 tax act's provisions until after next March, excess profits taxes will be a relatively small amount as the company had an exemption of earnings before the application of excess profits taxes amounting to approximately $2 a share. After the end of the current fiscal year, taxes will take a larger share of the net and accordingly, with no more than current business volume being anticipated for the near term, earnings of the next year are expected to be slightly below those of the current year.

Priorities will have a strong effect upon the production of almost all business machine manufacturers although they will probably not have an equal effect upon earnings. International Business Machines Company is a case in point. This company manufactures relatively few machines in comparison with others whose major lines are the result of production line methods. While not exactly custom made, I B M machines are mostly large, designed for specific purposes and are rented to the user rather than sold in quantity lots. The best part of the company's income therefore accrues from the rental of these machines and the sale of supplies such as record cards and similar materials without which the machines are not capable of efficient operation. There is a strong demand for new machines from Government as well as other sources and thus the rentals are in an uptrend. Then too, when business activity is at its height it requires considerably larger supplies of cards and other materials to keep up with the demand. The prospects are that I B M's business will continue to gain and were it not for the impact of added taxes, it is probable that earnings would reach record proportions. As it now stands, however, new taxes will absorb all but a minor part of increased operating profits which might be expected to accrue. Unless the method of figuring exemptions from excess profits taxes is revised, the company enjoys a high degree of protection against added imposts because of the uniformly high level of earnings over recent years. On the present method of figuring, the company's earnings up to about $10.20 a share are exempt from excess profits taxes as compared with actual earning of $10.50 a share last year. Earnings are expected to continue in the vicinity of $10 a year from what can now be seen and if the assumption is correct, the well established $6 yearly dividend rate is in no particular danger of being reduced although there is always the possibility that it may be increased, especially if business should continue at its present pace.

International Business Machines finds its regular products in good demand for defense work requirements and hence lacks ony incentive to (*Please turn to page 54*)

Office Equipment Company Earnings, Statistics and Comment

COMPANY	Earnings per Share 1940	Interim 1940	Interim 1941	Dividends Pd. to Date	Approx. Price	1941 Price Range High	1941 Price Range Low	COMMENT
Addressograph-Multigraph	Jy$0.78	$1.05(9)	$1.41(9)	$1.00	13	15⅞	12	Use of substitutes and armament work helpful.
Art Metal Construction	2.79	1.35(6)	NF	0.90	15	17½	15	Priorities affect future sales prospects.
Burroughs Adding Machine	0.63	0.30(6)	0.43(6)	0.45	8½	9⅜	7⅝	Business good, but earnings adequately valued.
Dictaphone Corp	3.40	NF	NF	1.50	26	34	25	Priorities not restrictive. Government work increasing.
General Fireproofing	3.26	1.54(6)	NF	0.85	12¾	16⅞	12½	Is making aircraft parts to offset other business.
International Business Machines	10.50	4.33(6)	5.01(6)	4.50	160	167½	140	Prospects for continued dividend despite lower earnings.
Marchant Calculating	3.27	1.80(6)	2.52(6)	0.75	16	18¾	15½	Large government business partly protects against priorities.
National Cash Register	1.26	0.67(6)	0.81(6)	1.00	13¾	14⅜	11⅛	Increasing armament work to offset priorities.
Pitney-Bowes Postage Meter	M0.62	0.15(3)	0.10(3)	0.20	5¾	6⅞	5¾	Approximately half capacity on defense orders.
Remington Rand	M2.17	0.21(3)	0.67(3)	0.80	9⅜	10¼	7½	Making anti-aircraft shells as starter on armament.
Royal Typewriter	Jy7.91	5.75(9)	6.31(9)	5.50	55	59½	52	Government orders for machines high.
Smith & Corona	Je0.90	....	3.46(12)	1.25	13	15	9	No war orders but machine demand excellent.
Tel Autograph	0.44	0.25(6)	0.19(6)	0.10	2½	3¾	2¼	Most adverse factors fully discounted.
Underwood Elliott Fisher	3.03	1.46(6)	2.56(6)	2.25	35	37⅞	30	Army munitions orders may take up eventual slack.
Wilson Jones	A1.18	0.96(9)	1.26(9)	1.00	8	8½	7	Dividend fairly certain and yield high.

A—Fiscal year ends August. Je—Fiscal year ends June. Jy—Fiscal year ends July. NF—Not available.

American Brake Shoe

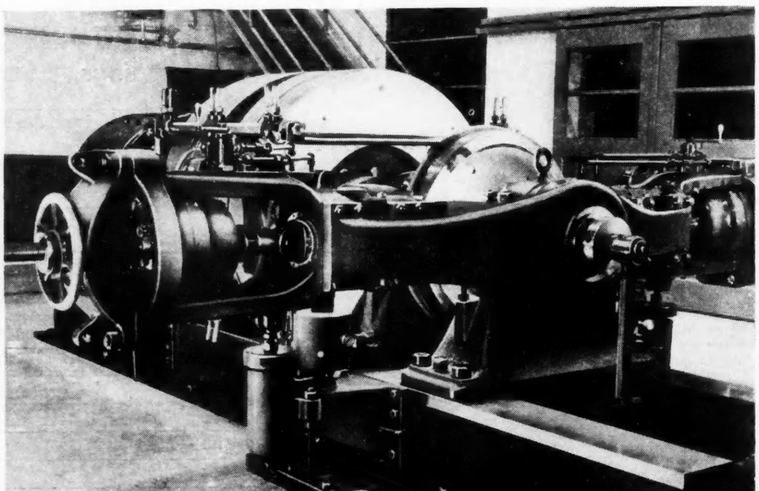
Adding to Its Record of Unusual Strength in an Unstable Industry

BY ROGER CARLSON

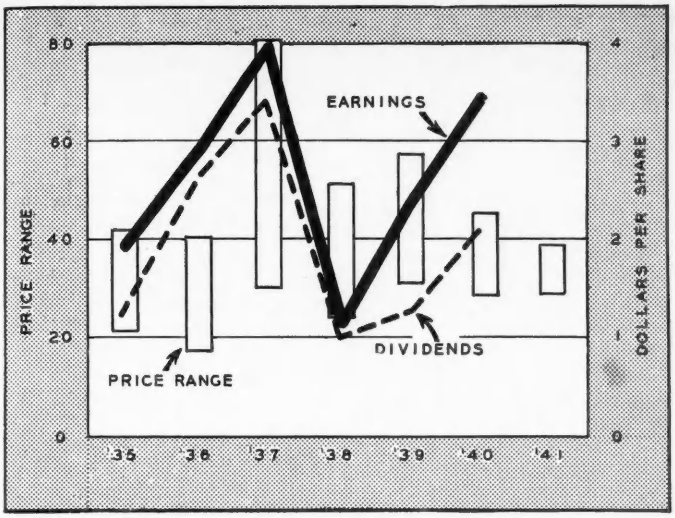
AMERICAN BRAKE SHOE & FOUNDRY CO. once confined its interests to the making of its patented line of brake shoes for railroad equipment and replacement parts for them. The high quality of the product and its better than average performance gave the company practically all of the business it could handle at the time when the railroads were in their heyday. Possessing a superior product and an unlimited demand for the materials made might have been good and sufficient reason for any company to continue to do the thing it knew best, but the management of American Brake Shoe, like Alexander the Great, sighed for new worlds to conquer. This unwillingness to let well enough alone has been the practical salvation of the company in recent years for the railroads entered upon a spell of evil times and had it not been for the several non-railroad interests developed by the company, American Brake Shoe's depression experiences would not have been quite so satisfactory as they were.

As early as 1927, American Brake Shoe began to cast about for an opportunity to lessen its dependence upon the railroads for the bulk of its business, and 10 years later the company was in the midst of a great expansion program which has not as yet been fully completed to the satisfaction of the management. While as recently as last year the railroad industry continued to furnish the company with approximately half of its gross business, other interests have been growing rapidly and promise further to decrease the railroads' importance as a contributor of gross income. The company's choice of extra activities has been fortunate in the light of subsequent developments for all of the newer products as well as the old ones are in strong demand for defense operations and there is no sign of any immediate subsidence. For instance, part of the company's newer activities center around the needs of the automobile industry. This in itself would not be highly favorable due to the declining volume of automobile production but, in the case of American Brake Shoe, the decline is favorable since the largest part of the company's automotive business is for replacement parts and it is expected that old equipment will be more frequently repaired as new vehicles become scarcer. But the company will also obtain its full share of any new equipment work available and the proportion of such work will be high for the company's products find much use on trucks and similar heavy vehicles where brake wear is high and replacements frequent. There is no immediate prospect of the company losing much of its previously acquired automotive business.

The company's business has been further diversified by the making of equipment used in mining, petroleum refining and drilling and in the manufacture of excavating machinery. All of these lines have been particularly active and bid to become more so as the demands for defense materials increase. The company has a small interest—10.3 per cent—in Bucyrus-Erie Co., a manufacturer of excavating machinery, although the latter company is not controlled by A.B.S. A series of air compressors and pneumatic hoists round out the line of non-railroad products.



This machine tests wheels under conditions similar to those in actual operations.



So far this fall, production has been running at virtual capacity in all divisions. Iron is more important to the company than steel, so that while there is a moderate scarcity of the kind of scrap normally used by the company in making car wheels, for instance, the shortage has been compensated for by larger charges of pig-iron. Since freight cars are one of the greatest needs of the country in order to maintain defense output at as high as possible levels, priorities have been given to the manufacturers of car wheels and there is not expected to be any real difficulty on the score of such raw materials. The forge division, only but recently expanded to take care of the company's normal requirements of iron forgings, is now fully occupied in turning out shell forgings and other forged items for defense. This is reputed to be one of the most profitable of the company's several activities and is expected to make a sizable contribution to income this year. Production earlier in the year was moderately slowed down by labor troubles and the inability to obtain certain raw materials at one small plant, but since then deliveries have increased substantially and the remainder of the year will probably witness a sharp recovery in both output and earnings.

Tax Reserves Reduce Earnings

Due to the difficulties mentioned above and also the decision of the management to make ample provisions for the then unknown increases in taxes, earnings reported for the second quarter of the year were about 225 per cent lower than those of the same period of a year ago. Net income for the period was $592,578 or the equivalent of $0.60 a share as compared with $0.75 a share for the second quarter of 1940. However, from second quarter earnings the company charged off $1,115,000 which included income and excess profits taxes in accordance with the 1940 Revenue Act and, moreover, charged $240,000 of additional first quarter taxes to the second quarter earnings. The total tax reserves for the first half of this year were therefore $1,500,000 as against actual requirements under the law then in effect of approximately $935,000. On the basis of what is now known of the new tax law, it is probable that second half tax reserves will take a much smaller proportion of net earnings and, therefore, a combination of greater gross income and smaller tax reserves should result in an improved earnings per share showing over that of the first six months.

Earnings for the first half of the year showed a moderate gain over those of a year ago. Net profit of the combined quarters was equivalent to $1.66 a share as compared with $1.41 a share in the initial half of 1940. From current indications, despite the brief interruption of one of the lesser plants due to a strike, earnings are expected to exceed $2 a share in the second half and thus bring the year's results to between $3.50 and $4 a share as compared with $3.49 a share a year ago. Barring unforeseen labor troubles and a critical shortage of raw materials, next year's earnings should be substantially better than those of this year although they probably will fail fully to reflect the continued increases in orders and shipments.

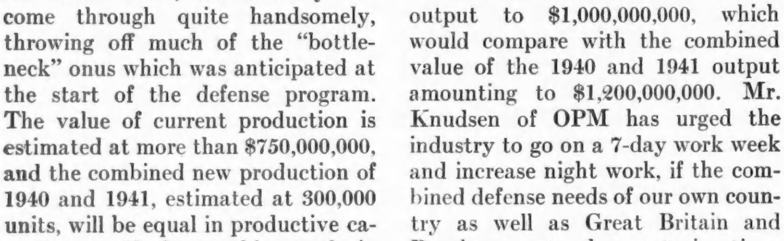
The mid-year balance sheet of the company showed a remarkable improvement in the company's financial position. In the past, A.B.S. has been noted for the strength of its financial position but the latest report is the best for many years. Total current assets as of June 30 were $22,865,096 or better than four times total current liabilities of $5,081,270. A year ago the ratio of net current assets was also high but total current assets at that time were only $14,348,964. Last June, cash items of $9,362,302 were not only double those of a year ago but were also almost double total current liabilities. Inventories of nearly $8,000,000 were substantially greater than a year ago but, (*Please turn to page 54*)

A close-up of the brake machine shown on the opposite page.

For Profit and Income

Machine Tools

Machine tools are the keystone of virtually the entire defense program and the industry has been under constant pressure to expand output and speed up deliveries. Considering the highly specialized nature of a machine tool and the time required for manufacture, the industry has come through quite handsomely, throwing off much of the "bottleneck" onus which was anticipated at the start of the defense program. The value of current production is estimated at more than $750,000,000, and the combined new production of 1940 and 1941, estimated at 300,000 units, will be equal in productive capacity to all the machine tools in existence in all of the plants in the country at the beginning of 1940. To cite only a single instance, Bullard Co., have been shipping new tools this year at a rate double that of a year ago. New expansion will enable the company to further increase shipments next year. In fact, it is anticipated that increased productive capacity for the industry as a whole will raise the value of 1942 output to $1,000,000,000, which would compare with the combined value of the 1940 and 1941 output amounting to $1,200,000,000. Mr. Knudsen of OPM has urged the industry to go on a 7-day work week and increase night work, if the combined defense needs of our own country as well as Great Britain and Russia are to be met—in time. Meanwhile, of course, machine tool needs of non-defense industries are piling up, as a potential cushion against a serious slump once defense needs have been substantially filled. Operating earnings are high but taxes and working capital needs will keep dividends proportionately low.



This is a Celotex Cemesto House of the type which is being built to house the families of 600 defense workers at The Glenn L. Martin Company near Baltimore, Md.

Year-End Dividends

In the first three quarters of the current year many companies have pursued a dividend policy which has appeared ultra conservative in relation to reported earnings. However, with the tax bill out of the way, and with a fair idea of what profits will be for the full year, directors will doubtless be disposed to treat stockholders more generously in the final quarter. Stockholders are warned, however, not to gear their hopes too high. Greatly increased needs for tax reserves and the necessity of employing more cash to finance the high level of business are factors which directors must give serious consideration.

Low Cost Defense Housing

SPAB has assumed full control over private and public building, and in the interest of conserving materials vital to defense has banned all further construction unless it can be demonstrated that it is vital to defense or public welfare. This move strikes a severe blow at all phases of the building industry and the only silver lining in an otherwise dark cloud is the probability that the postponement of construction at this time will have the effect of building up a huge backlog for peace-time needs. It will be recalled that it was

Stocks with Fiscal Years Differing from Calendar Year

The new tax law applies to fiscal years beginning on or after Jan. 1, 1941 and the new rates will accordingly not apply to companies having fiscal years beginning before that date even though the bulk of earnings was obtained during the 1941 calendar year. The new taxes will apply on earnings for the succeeding fiscal year, but since 1942 taxes promise to be even higher it may be seen that there is a continuing time lag advantage to such companies.

Issue	Fiscal Year Earnings Per Share 1939	1940	1941	Interim Earnings 1940	1941
American Agricultural Chemical	$1.22je	$1.45je	$1.78je	......	......
American Car & Foundry	d6.15ap	d3.40ap	5.23ap	......	......
Beatrice Creamery	3.02fe	3.90fe	3.19fe	$1.42ag6	$1.93ag6
Bendix Aviation	2.14de	*3.09se	......	2.70je9	4.52je9
Black & Decker	1.60se	2.82se	......	1.87je9	3.21je9
Crown Zellerbach	1.05ap	2.42ap	2.75ap	0.70jl3	0.70jl3
Cudahy Packing	0.60oc	3.29oc	......	......	......
Deere & Co	1.82oc	3.33oc	......	......	......
Douglas Aircraft	4.81nv	18.05nv	......	5.65my6	7.00my6
Firestone Tire & Rubber	2.03oc	3.03oc	......	0.60ap6	1.75ap6
International Harvester	1.71oc	4.11oc	......	......	......
Liquid Carbonic	1.62se	2.21se	......	1.12je9	1.42je9
Loew's	5.37ag	4.82ag	......	4.39my9	3.92my9
Montgomery Ward	3.50ja	4.91ja	4.14ja	1.58jl6	1.27jl6
Starrett (L. S.) Co	2.13je	4.94je	5.78je	......	......
Spicer Mfg	3.05ag8	6.36ag	......	4.77my9	7.07my9
Procter & Gamble	3.60je	4.37je	4.21je	......	......
Timken-Detroit Axle	2.62de	3.69je	5.01je	......	......
Warner Bros. Pictures	0.36ag	0.63ag	......	0.58je6	1.12je6

***—Fiscal year end changed to September 30. ja—January. fe—February. mr—March. ap—April. my—May. je—June. jl—July. ag—August. se—September. oc—October. nv—November. de—December. Numerals following month of year indicate number of months covered. Where no such figure appears the interval covered is twelve months.**

the shortage of dwellings and other construction resulting from the first World War which set off a national building boom and which did not culminate until 1926. The present interlude might well provide the building industry with a double-barreled opportunity. The demand for low cost housing in important industrial areas importing workers for defense work may lead ultimately to the development of the long sought for goal—an adequate and pleasing dwelling which would lend itself to mass production and erection technique, at a cost which would place it well within the means of families having a modest income. Typical of what may be expected in this direction is the Cemesto house developed by Celotex Corp. (see illustration). To provide comfortable housing for workers, 600 of these houses are being erected adjacent to the Glenn L. Martin aircraft plant in Baltimore. Each of these houses has six rooms, modern equipment throughout, including an oil burner and a completely electrified kitchen, copper screens and venetian blinds. The walls are constructed of Celotex Cemesto, with high insulating properties and requiring no painting either inside or out. The ceiling is made of Celotex Key Joint Units, while the roof is a Celo-Roof made of specially formed sheets of Celotex insulation. The cost of the house is within the means of families with annual incomes in the $1,500 bracket.

Chicago Great Western

One of the best acting issues on the Big Board during recent sessions has been the preferred stock of the reorganized Chicago Great Western Railway. Outstanding in the amount of 366,104 shares of $50 par, the issue is entitled to cumulative dividends of $2.50 annually from January 1, of the current year, up to $7.50 a share. Present indications are that current earnings of the road will exceed preferred dividend requirements by a comfortable margin and while no definite action is likely on dividend payments until early next year, it is considered likely that the preferred shares will then be placed on a regular 62½-cents quarterly basis. It is not unlikely moreover that some payment may be made against accumulated arrears which will amount to $2.50 a share at the end of 1941. In the first eight months of this year the road reported earnings equal to $1.94 a share on the preferred stock, after all prior charges. Normally, some 60 per cent of net operating income is received in the final four months of the year.

Storm Cellar Stocks

Just prior to the recent market reaction, the issues most prominent among the stocks making new 1941 highs were the shares of companies rather far removed from defense activities. Industries represented included department stores, grocery chains, food processors, motion pictures, and variety chains. All of these groups are enjoying a substantially increased volume of business but it is to be doubted that these gains will be proportionately reflected in per-share earnings—after taxes. On the other hand, earnings are probably less vulnerable to any logical method of taxing profits derived directly from defense orders. Many of these non-defense issues are earning and paying a good dividend and, despite the market gains which have been scored, still afford a wide choice to the income investor.

So They Say

Production of light tanks by American Car & Foundry is being stepped up to 500 monthly. . . . Passenger traffic over domestic air lines set another new high record in September. This is getting to be a habit. . . . Tighter installment terms are ahead and the leading finance companies are without market friends. . . . Oil producers are trying to convince OPA that higher crude prices are warranted. No luck so far. . . . Banks with large holdings of government bonds will be hit hard by the new tax bill. . . . The recent declaration of a $1 dividend by Curtiss Wright probably foreshadows similar generous treatment for stockholders of Glenn Martin, Douglas, United and other leading aircraft companies. . . . Following expiration of "rights," brokers report investment buying of Dow Chemical. . . . Fiscal year of packing companies ending this month will show almost uniformly good earnings. Higher cost inventories, however, throw some doubt on next year's results. . . . Early comers will have no trouble buying their favorite anti-freeze but dilatory motorists may experience difficulty, supplies are limited.

Markets are Expanding For Climax-Molybdenum

Part of Progress in War Period Should Be Retained.

BY JESSE J. HIPPLE

THE sudden entry into a war economy has an adverse effect upon many industries but there have been occasions where war requirements have been the beginning of a period of advancement in the use of many materials which could have been accomplished in no other way short of a long period of expensive missionary work. Classic examples of such developments can be found in the cases of aluminum, nickel, tin plate and others whose present high utility value can be traced to beginnings made during the course of previous wars. One of the metals which promise to obtain a lasting position in metallurgy as a result of various scarcities of materials during the current affair is molybdenum. It is, of course, improbable that molybdenum will ever be used in the various arts without a strong admixture of other metals but, on the other hand, it is quite probable that this metal will supplant various others in the making of alloyed steels and will eventually be utilized in many other ways as well.

Molybdenum, a silvery metal of somewhat the same appearance of lead, imparts a high degree of toughness to steel and improves the characteristics of the ferrous metals with which it is combined. It is usable to replace some of the now more difficult to obtain alloying metals such as tungsten, chromium, nickel, tantalum and the like; often resulting in a product of superior performance and always making available a satisfactory substitute for the now rare metals which will serve until they are again available in adequate quantities. The United States is fortunate in possessing by far the largest natural reserves of molybdenum, said by some to be equal to about 80 per cent of the world supply but in actuality representing a much greater proportion.

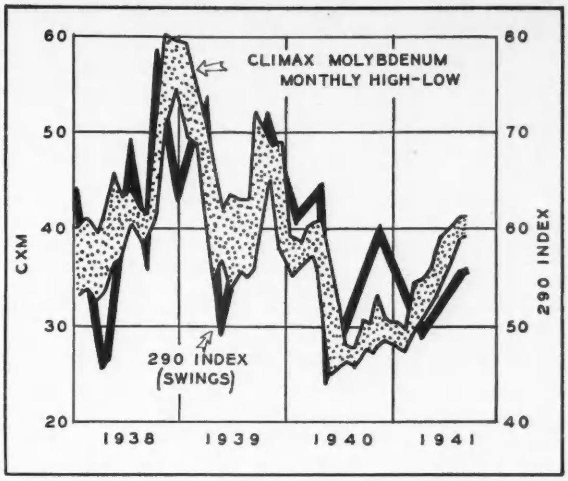
European demand for molybdenum has been so great as to lead to the erroneous belief that this country has been backward in recognizing the value of this product which is found in comparative abundance within our own borders. Such is not the case. It is true that in 1939, Europe imported from us approximately 33 per cent more molybdenum than we produced in that year and even in 1940—when trade channels were restricted—purchased almost 50 per cent of our output for the period but it must be remembered that all of Europe once was able to produce approximately half again as much steel as in the United States and, moreover, of their total steel production, about 16 per cent of the European output was alloyed metal as compared with approximately 6 per cent of the total in this country. An additional factor in reconciling Europe's high demand for molybdenum as an alloying material is that it has been available in large quantities at a single source and in Germany and Russia, in particular, its use was mandatory by government decree regardless of the cost of revising production methods to make possible its use.

The expense of conversion of production facilities and uncertainty of results have been the major drawbacks to more complete acceptance of molybdenum in this country as one of the principal steel alloying agents. Molybdenum producers have gone to great expense in research to make the use of their material desirable and foolproof but the work has been arduous and has entailed the individual conversion of each new user with a similar amount of work and persuasion necessary to convince the next one. The war has made the missionary work far less difficult. Now, it is necessary to accept any available material to gain desired results regardless of the cost of the shift over or even the infrequent small addition to the ultimate cost per unit of finished product. In many cases, the resulting alloy is superior in useful characteristics to the one it replaces and more often than not, production economies have resulted once the change-over expense has been written off. After the war, it it probable that those users of molybdenum who have found the new alloys to be more economical of use or productive of superior products,

will continue to manufacture moly alloys to the exclusion of competitive materials. Those who find no real saving in costs nor any outstanding improvement in the characteristics of their products may change back to their older preferences but even a certain amount of such changes will be restricted by the change-over costs and as a result, it is probable that the molybdenum industry will retain a sizable proportion of the business acquired through present dislocations. And, what is more, American industry will have found increasingly large use for alloyed steels of many kinds with the further result that the demand for such alloying materials as molybdenum will continue to grow.

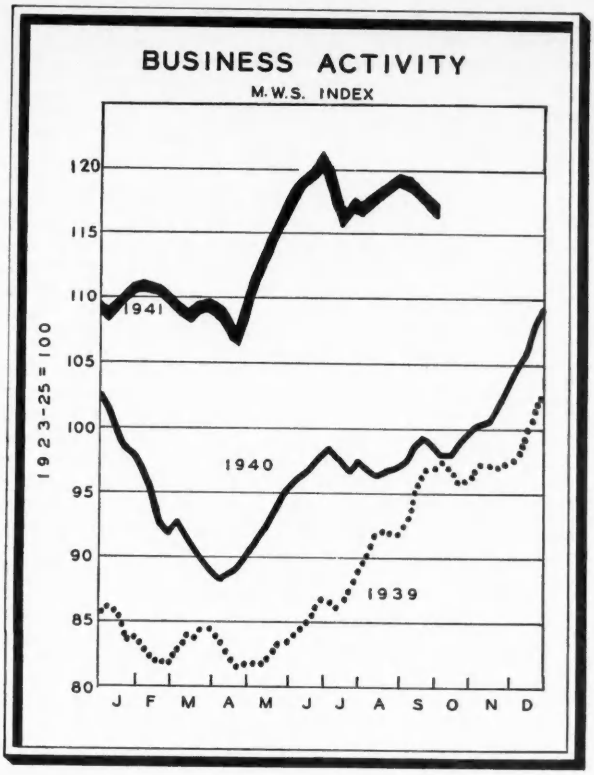
Climax Leads Production

Climax Molybdenum Company is the largest producer of molybdenum in the world, reputed to control approximately 80 per cent of all known molybdenum reserves and producing 70 per cent or more of the world's output. The mine, located at Climax, Colorado, has reserves sufficient for approximately 50 years production at top capacity and the possibility of further ore discoveries is by no means limited. The ores are concentrated at the mines and that portion of the concentrates that is to be used in this country is sent to the company's plants in Pennsylvania and elsewhere for refining. Most of the export shipments are in the form of concentrates which are refined at their point of destination. Last year, Climax-Molybdenum produced about 22,800,000 pounds of concentrates as compared with total production capacity of approximately 35,000,000 pounds at that time. Since then, the company has been adding to its production facilities although it is probable that they will not be fully employed until next year. Current indications are that this year's production of molybdenum concentrates



will approximate 25,000,000 pounds although exports will probably not be greatly in excess of 5,000,000 pounds unless Government restrictions on shipments to certain areas are strongly modified. However, Canadian and British exports will probably continue to increase, thus offsetting slightly, the loss of other foreign business.

Prior to the war, the automobile industry represented the largest individual domestic consumer of molybdenum alloys. Despite the reduction in the output of passenger cars, it is improbable that the demand for molybdenum from the automobile industry will be any less. Indeed, there is every reason to anticipate an increase in the sales to that industry. Molybdenum is now being used to toughen the protective armor for tanks and similar military vehicles, is being used in increasingly large quantities for axles, drive shafts and other parts where the torsional strain is high and is (*Please turn to page 55*)



CONCLUSIONS

INDUSTRY — Excessive inventories considered risky at present time in view of heavy taxes and possibility of business recession.

TRADE—Pre-October spurt in luxury goods sales to beat excise taxes.

COMMODITIES — Sensitive commodity prices off sharply as concern over Russia's fate rises.

MONEY AND CREDIT—Commercial loans by N. Y. banks at 10-year high. Earnings assets decline.

The Business Analyst

Per capita **Business Activity** has declined more than a point during the past fortnight, despite steadiness in electric power output and steel operations. Our index for September improved only fractionally to around 118.6% of the 1923-5 average, from 118.3 in August; but was 20% ahead of September, 1940. Average for the third quarter was 118.2—four points higher than in the second quarter and 21% above the third quarter of 1940. First nine months of the current year averaged 114.0—20% ahead of the like period last year. Without compensation for population growth, this publication's index for September was 139% of the 1923-5 average — unchanged from August, but 24 points ahead of September, 1940.

* * *

Income Payments in August were 3% lower than during July (a somewhat less than normal seasonal decline; but were 22% above last year, against an eight-month rise of 21%. **Farm Income** during August, including benefit payments, increased 49% over last year, against 20% for eight months. Purchasing power of **Factory Weekly Wages** was 15% ahead of last year but 1.5% under the June peak. Civil non-agricultural **Employment** reached 39,542,000 in August—161,000 larger than during July

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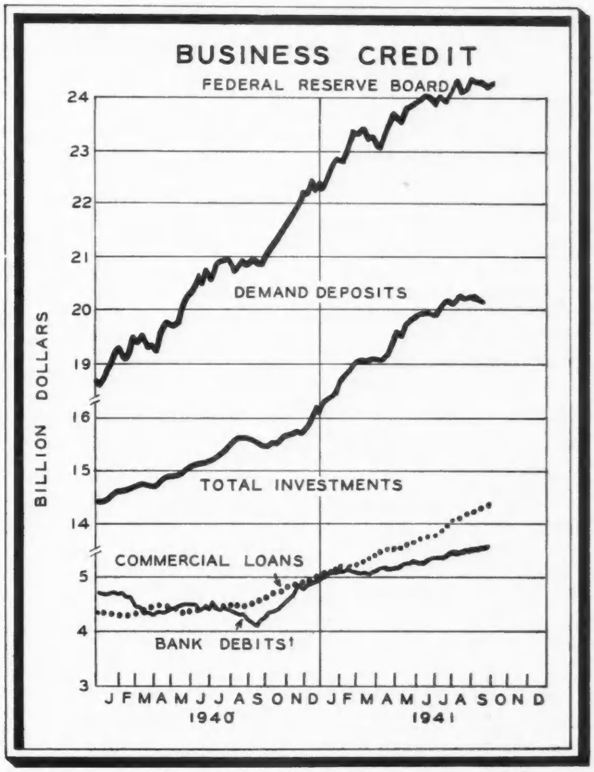


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Aug.	164	162	121
INDEX OF PRODUCTION AND TRADE (b)	Aug.	111	93	113
Production	Aug.	115	92	114
Durable Goods	Aug.	121	86	122
Non-durable Goods	Aug.	112	95	109
Primary Distribution	Aug.	105	90	105
Distribution to Consumers	Aug.	107	98	116
Miscellaneous Services	Aug.	103	92	105
WHOLESALE PRICES (h)	Aug.	89.8	88.2	77.4
INVENTORIES (n. i. c. b.)				
Inventories	Aug.	147.6	145.1	120.7
New Orders	Aug.	250	262	159
Shipments	Aug.	206	202	136
COST OF LIVING (d)				
All items	Aug.	89.4	88.9	86.0
Food	Aug.	87.3	86.2	79.9
Housing	Aug.	88.6	88.4	86.9
Clothing	Aug.	74.5	73.8	73.0
Fuel and Light	Aug.	88.6	87.8	84.8
Sundries	Aug.	98.8	98.7	97.4
Purchasing value of dollar	Aug.	111.9	112.5	116.3
NATIONAL INCOME (cm)†	July	7,442	7,661	6,215
CASH FARM INCOME†				
Farm Marketing	July	$887	$773	$673
Including Gov't Payments	July	902	798	708
Total, First 7 Months	July	5,242	......	4,532
Prices Received by Farmers (ee)	Aug.	131	125	96
Prices Paid by Farmers (ee)	Aug.	131	129	122
Ratio: Prices Received to Prices Paid (ee)	Aug.	100	97	79
FACTORY EMPLOYMENT (f)				
Durable Goods	Aug.	137.9	137.9	102.4
Non-durable goods	Aug.	127.4	123.7	112.2
FACTORY PAYROLLS (f)	Aug.	157.0	152.8	105.5
RETAIL TRADE				
Department Store Sales (f)	Aug.	135	115	98
Chain Store Sales (g)	Aug.	151	141	122.8
Variety Store Sales (g)	Aug.	159	145	128
Rural Retail Sales (j)	Aug.	209	178	146
Retail Prices (s) as of	July	99.5	98.9	92.8
FOREIGN TRADE				
Merchandise Exports†	July	$359	$330	$317
Cumulative year's total† to	July 31	2,446	......	2,381
Merchandise Imports†	July	278	280	232
Cumulative year's total† to	July 31	1,872	......	1,526
RAILROAD EARNINGS				
Total Operating Revenues★	Aug.	$493,674	......	$381,538
Total Operating Expenditures★	Aug.	313,843	......	267,571
Taxes★	Aug.	56,850	......	36,517
Net Rwy. Operating Income★	Aug.	111,317	......	66,530
Operating Ratio %	Aug.	63.57	......	70.13
Rate of Return %	Aug.	4.04	......	2.44
BUILDING Contract Awards (k)	Aug.	$760	$577	$415
F. H. A. Mortgages;				
Selected for Appraisal†	Sept.	112	120	116
Accepted for Insurance†	Sept.	92	91	85
Premium Paying†	Sept.	73	70	68
Building Permits (c)				
214 Cities†	Aug.	112	138	102
New York City†	Aug.	8	18	14
Total, U. S.†	Aug.	120	156	116
Engineering Contracts (En)†	Sept.	$514	$530	$368

PRESENT POSITION AND OUTLOOK

(Continued from page 41)

and 3,640,000 ahead of last year. Military and Naval forces nnmbered 1,944,000 in August—87,000 more than for July and 1,395,000 greater than last year. Public civilian employees numbered 4,168,000 in August—329,000 more than a year ago.

* * *

The National Industrial Conference Board's seasonally adjusted indexes disclose that **new orders** booked by manufacturers during August were 5% under July, though 57% above August last year. **Shipments** in August were 2% over July and 51% ahead of last year. **Backlogs** on September 1 were 2% larger than a month earlier and 219% over last year. Dividends declared in September were 11% more liberal than in the like period of 1940, compared with a nine-month rise of only 9%. Largest increase over last year during the nine-month period were 50% for the railroad equipment industry, 30% by the **steel** group, 19% by the **rails,** 17% for motor equipments and 16% by the coppers. **Utility** dividends were up only 2% and **Oil** industry payments were off **1%.**

Retail sales of luxury goods—diamonds, furs, pianos, toilet goods, wines and liquors—during the closing days of September topped all previous records since 1929, in a scramble to beat the new excise taxes which became effective October 1. Much of the sudden spurt in prosperity was undoubtedly borrowed from future business, and sales of this type of merchandise have already fallen off sharply—especially in the New York area under the added distracting influences of the World Series and Jewish holidays. Weighing the possibility of a business set-back (through causes outlined here in our last issue), some of the larger department stores are beginning to worry over **Inventory risks.** One store finds, for example, that an operating return of only $10,000 would be realized on are beginninb to worry over **inventory risks.** paying the high taxes, and interest on bank loans to finance the necessary expansion in inventories. A 5% decline in value of the expanded inventories would wipe out all profit from the added sales. In the New York area, however, inventories as a whole at the end of August were only 24% above last year, compared with the month's increase of 33% in sales.

* * *

Net income after interest and rentals reported for eight months by Class I **railroads** amounted to $299,000,000 (including $67,000,000 for August), compared with only $29,000,000 during the like period last year. Gross revenues in August topped August, 1930 (the previous peak), by nearly 3%. **Carloadings** peak this autumn will be below earlier expectations.

* * *

Construction contracts awarded during August in 37 states east of the Rockies were 84% above last year and 14% over the previous all-time high reached in May, 1928. Residential

(Continued on next page)

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Sept.	6,820	7,001	5,895
Pig Iron Production in tons★	Aug.	4,791	4,771	4,238
Shipments, U. S. Steel in tons★	Aug.	1,754	1,667	1,456
AUTOMOBILES				
Production				
Factory Sales	Aug.	164,792	468,895	89,866
Total 1st 8 Months	Aug.	3,782,430	......	2,413,297
Registrations				
Passenger Cars, U. S. (p)	July	391,795	443,470	315,246
Trucks, U. S. (p)	July	67,412	62,265	49,053
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Sept.	377	377	360
Shipments, U. S. & Canada★ (tons)	Sept.	385	385	362
Mill Stocks, U. S. & Canada★ (tons)	Sept. 1	160	169	178
LIQUOR (Whisky)				
Production, Gals.★	July	9,444	12,027	8,187
Withdrawn, Gals.★	July	7,215	7,535	8,331
Stocks, Gals.★	July	504,077	502,847	480,938
GENERAL				
Paperboard, new orders (st)	July	569,252	525,325	398,191
Machine Tool Output (millions of $)	July	57.9	63.4	31.5
Railway Equipment Orders (Ry)				
Locomotive	Aug.	101	178	65
Freight Cars	Aug.	2,650	10,889	7,085
Passenger Cars	July	35	32	15
Cigarette Production†	July	18,404	18,499	15,913
Bituminous Coal Production★ (tons)	Sept.	45,464	45,650	......
Portland Cement Shipments★ (bbls)	Aug.	17,454	16,363	13,851
Commercial Failures (c)	Aug.	954	908	1,128

PRESENT POSITION AND OUTLOOK

dential contracts were 50% ahead of last year and the largest for any month since April, 1929. Engineering construction awards for the year to date are 95% above last year.

* * *

Used car sales continue to maintain the same large rate of gain over last year that has prevailed for the past twelve months; but the 50% cut in **automobile production** (which OPA says may be deepened next year) is drying up the supply of used cars and will soon throttle sales. Even now, used car inventories are only slightly above last year's level.

Portland cement shipments during August were 27% above last year, leaving month-end stocks 7.5% lower than a year earlier. **Lumber** orders booked in September were 19% under last year and 3% below production. **Bituminous coal** production, at 360,000,000 tons for 39 weeks, is 8.7% ahead of the like period last year, despite the strike this summer. Shipments of **locomotives** to Egypt for British troop movements may cause a domestic shortage.

* * *

Eight months' **shoe** production approximated 340,000,000 pairs—22% above the like period last year. With national defense taking 30% of domestic paper production, OPM predicts that uses of **newsprint** and other paper will have to get along with 16% less next year.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Oct. 4	116.9	117.6	978
ELECTRIC POWER OUTPUT				
K.W.H.†	Oct. 4	3,290	3,233	2,792
TRANSPORTATION				
Carloadings, total	Oct. 4	917,516	919,510	805,986
Grain	Oct. 4	40,180	40,480	39,387
Coal	Oct. 4	170,098	170,759	127,693
Forest Products	Oct. 4	70,114	46,288	40,728
Manufacturing & Miscellaneous	Oct. 4	396,927	399,710	341,217
L. C. L. Mdse	Oct. 4	161,309	160,593	159,636
STEEL PRICES				
Pig Iron $ per ton (m)	Oct. 4	23.61	23.61	22.61
Scrap $ per ton (m)	Oct. 4	19.17	19.17	20.62
Finished c per lb. (m)	Oct. 4	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Oct. 11	98	98½	94
PETROLEUM				
Average Daily Production bbls.★	Oct. 4	3,861	4,060	3,489
Crude Runs to Stills Avge. bbls.★	Oct. 4	4,015	3,980	3,565
Total Gasoline Stocks bbls.★	Oct. 4	80,870	81,003	81,644
Fuel Oil Stocks bbls.★	Oct. 4	96,016	95,251	107,464
Crude—Mid-Cont. $ per bbl	Oct. 11	1.17	1.17	1.02
Crude—Pennsylvania $ per bbl	Oct. 11	2.23	2.23	1.48
Gasoline—Refinery $ per gal	Oct. 11	.085	.085	.05⅜

PRESENT POSITION AND OUTLOOK

With the shift back from daylight saving to standard time, **electric power output** has jumped to a new all-time high and the margin of increase over last year widened to nearly 18%. August output was 17.3% above 1940; but prolonged drought is again raising fear of shortages in the East and South. In the latter area, demand is running more than 27% above a year ago.

* * *

SPAB has decided that the **steel** industry must provide 10,000,000 tons of additional capacity over the next two years, at a cost of $125,000,000. Construction of the new plants will aggravate the steel shortage meanwhile, and nobody knows where the scrap is coming from to operate them upon completion.

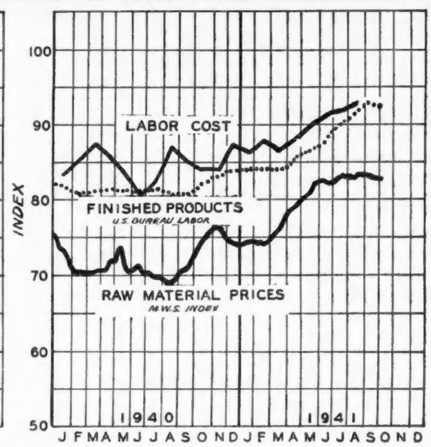
* * *

Shortages of steel and machinery have caused **oil** companies to abandon plans for a new shipyard to build 36 tankers, and proposed pipeline from Texas to the eastern seaboard may be postponed indefinitely. It is reported however, that the British may return 10 to 15 tankers transferred to them last spring. The R F C expects to help finance construction of new plants to treble present **aviation gasoline** refining capacity.

†Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1919-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st.)—Short tons.

Trend of Commodities

Prices of sensitive commodities, notably agricultural products, have displayed increasing irregularity over the past fortnight. Last week losses were shown by wheat, cotton, corn, oats, rye, lard, soy beans and cocoa. Closing prices were somewhat better than the lows but the recovery was not particularly impressive. The probabilities, however, are that the recent action of this group will prove largely temporary. Demand will expand but increased production will not be immediately effective. Wheat and cotton farmers continue to withhold stocks under the conviction that an attempt to fix prices below 110% of parity will never get by Congress. A bill has been introduced in Congress by Senator Thomas to change the base period for computing parity prices to July 1919-June 1929 average from the present August 1909-July 1914 period. If enacted the effect would be to raise the parity price of cotton 2.55 cents a pound, reduce corn 6.5 cents and leave wheat practically unchanged.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1940—1941 High	1940—1941 Low	Oct. 10	Oct. 4
28 Basic Commodities	156.9	105.6	153.8	155.3
Import Commodities	159.6	104.7	155.4	156.3
Domestic Commodities	156.5	105.5	152.8	154.6

	1940—1941 High	1940—1941 Low	Oct. 10	Oct. 4
Domestic Agricultural	166.4	111.4	157.7	161.6
Foodstuffs	172.6	100.5	164.9	169.7
Raw Industrial	146.9	101.3	145.8	145.2

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Oct. 10	16.76	17.12	9.50
December	Oct. 10	16.95	17.34	9.49
Spot	Oct. 10	17.54	17.74	9.75
(In bales 000's)				
Consumption, U. S.	Aug.	875	929	655
Exports, wk. end	Aug. 29	......	8	9
Total Exports, season Aug. 1 to	Aug. 29	18	18	48
Government Crop Est.	Oct. 1	11,061	......	12,686(ac)
Active Spindles (000's)	Aug.	23,029	23,028	22,084
WHEAT				
Price cents per bu. Chi. closing				
December	Oct. 10	118¾	120⅛	83⅞
May	Oct. 10	123⅝	126	82¾
Exports bu. (000's) since July 1 to	Aug. 23	24,700	......	17,,020
Exports bu. (000's) wk. end	Aug. 23	2,785	3,602	1,874
Visible Supply bu. (000's) as of	Aug. 23	217,648	215,539	164,130
Gov't Crop Est. bu. (000's)	Oct. 1	961,194	......	816,698(ac)
CORN				
Price cents per bu. Chi. closing				
December	Oct. 10	77¼	80½	59⅜
May	Oct. 10	83¼	85⅝	60⅛
Exports bu. (000's) since July 1 to	Aug. 23	2,825	......	6,537
Visible Supply bu. (000's) as of	Aug. 23	37,232	37,931	25,229
Gov't Crop Est. bu. (000's)	Oct. 1	2,626,000	......	2,449,200(ac)

PRESENT POSITION AND OUTLOOK

Cotton. The prospect that the current crop yield would be larger than previously anticipated together with growing uneasiness over the fate of Russia brought heavy liquidation in the cotton market. At one point prices were down $4 to $4.50 a bale. Mill buying, however, arrested the decline and for the week the net loss ranged from 45 to 57 points. The latest Government estimate placed the current crop at 11,061,000 bales an increase of 351,000 bales since the September estimate. The decline, however, was conspicuous for the lack of Southern hedge selling.

* * *

Wheat. The losses in wheat prices for the week ranged from 2¾ to 3⅛ cents. Lack of market support rather than any new developments was apparently responsible for the drop. Traders scanning the Russian news displayed reluctance to enter the market, and a generally bearish sentiment pervaded the market despite further assurances from Washington that farm products had little to fear from any proposed price legislation.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Oct. 11	12.00	12.00	12.00
Exports f. a. s. N. Y.	Oct. 11	11.00	11.00	9.90
Refined Prod., Domestic.*	Aug.	85,426	86,879	80,851
Refined Del., Domestic*	Aug.	117,262	143,089	97,719
Refined Stocks, Domestic*	Aug.	72,154	74,384	198,955
TIN				
Price cents per lb., N. Y.	Oct. 11	52	52	51.75
Tin Plate, price $ per box	Oct. 11	5.00	5.00	5.00
World Visible Supply† as of	June 30	38,600	40,777	31,869
U. S. Deliveries†	July	12,575	14,880	7,325
U. S. Visible Supply† as of	July	5,864	2,846	6,567
LEAD				
Price cents per lb., N. Y.	Oct. 11	5.85	5.85	5.25-5.30
U. S. Production*	Aug.	39,100	42,048	36,851
U. S. Shipments*	Aug.	55,005	54,067	51,643
Stocks (tons) U. S., as of	Aug. 31	15,330	19.172	43,321
ZINC				
Price cents per lb., St. Louis	Oct. 11	7.25	7.25	7.25
U. S. Production*	Aug.	75,524	74,641	57,196
U. S. Shipments*	Aug.	61,061	62,714	59,511
Stocks U. S., as of*	Aug. 30	17,969	13,848	52,214
SILK				
Price $ per lb. Japan xx crack	Oct. 11	3.57	3.57	2.80
Mill Dels. U. S. (bales)	Aug.	2,069	28,528	30,189
Visible Stocks N. Y. (bales) as of	Aug. 30	53,988	47,208	46,898
RAYON (Yarn)				
Price cents per lb	Oct. 11	53	53	53
Consumption (a)	Sept.	37.0	37.3	30.9
Stocks as of (a)	Sept. 30	4.9	4.2	8.4
WOOL				
Price cents per lb., raw, fine Boston	Oct. 11	1.06	1.06	.87
Consumption, period ending (a)	July 31	46,765	41,904	28,430
HIDES				
Price cents per lb. No. 1 Packer	Oct. 11	15	15	13
Visible Stocks (000's) as of	July 31	13,441	13,479	12,718
No. of Mos. Supply as of	July 31	5.76	5.98	8.18
Boot and Shoe Production, Prs.★	Aug.	44,764	44,794	39,603
RUBBER				
Price cents per lb	Oct. 11	22 5/8	22 5/8	20.37
Imports, U. S.†	Aug.	105,456	97,081	73,028
Consumption, U. S.†	Aug.	55,365	68,653	53,307
Stocks U. S. as of	Aug. 31	444,890	395,216	194,760
Tire Production (000's)	Aug.	5,005	5,603	4,676
Tire Shipments (000's)	Aug.	5,400	6,456	4,123
Tire Inventory (000's) as of	Aug. 31	5,834	6,235	9,911
COCOA				
Price cents per lb	Oct. 11	7.75	7.75	4.19
Arrivals (bags 000's)	Sept. 10	405	534	508
Warehouse Stocks (bags 000's)	Oct. 1	1,395	1,447	1,100
COFFEE				
Price cents per lb. (c)	Oct. 11	13 1/8	13 3/8	7
Imports, season to (bags 000's)	Sept. 1	1,343	......	2,159
U. S. Visible Supply (bags 000's)	Sept. 1	2,203	2,187	1,473
SUGAR				
Price cents per lb.				
Raw	Oct. 11	3.60	3.60	2.78
Refined (Immediate Shipments)	Oct. 11	5.25	5.25	4.35
U. S. Deliveries (000's)*	8 mos.	5,578	......	4,480

PRESENT POSITION AND OUTLOOK

Copper. Developments featured extensive revision copper scrap price schedules to place ceiling prices based on a shipping point rather than a delivered basis. Shortages of copper for civilian industries will become increasingly severe, with allotments next year possibly falling below 400,000 tons, a cut of nearly 50%.

* * *

Tin. Singapore prices continue at or slightly above the domestic price ceiling of 52 cents. It has been more than two weeks since domestic importers have been able to make any purchases as a result of the Far Eastern price situation.

* * *

Lead. Hopes that lead may be permitted to advance prices were raised by the action of the OPA in connection with zinc. (see below) The underlying factors are much the same as in zinc, although lead is a much better supply situation than other non-ferrous metals.

* * *

Zinc. In order to meet higher costs and encourage increased production the OPA last week permitted producers to raise prices 1 cent a pound. The order was effective immediately.

* * *

Rayon. Celanese Corp., has raised prices of yarn in line with other advances in the industry. Supply situation continues tight.

* * *

Wool. August consumption of apparel wool in the United States was estimated at 82,354,000 pounds, compared with 83,780,000 pounds in July. Total consumption for the year to date amounts to 643,973,000 pounds as against 377,318,000 in the same period last year.

* * *

Hides. Shoe output in August dipped slightly to 44,000,000 pairs as compared with 44,353,000 pairs in July. Price ceilings may prove a stumbling block in obtaining the necessary suppiles of hides from South America. The latter are now quoted about 2 cents above the domestic product.

* * *

Rubber. In the interests ot conserving vital supplies, motor car manufacturers may dispense with the spare tire, or at least one of them. Retailers have long held that spare tires should be their business.

* * *

Silk. The trade was displayed reluctance to part with stocks to the Government at the $3.08 price. Lifting of the embargo in event that U. S. and Japan reach an agreement would leave manufacturers short of supplies.

* * *

Coffee. Futures declined last week due to the lack of trade buying. Roasters are in no haste to bid prices up against the existing large quotas.

* * *

Sugar. Refiners face further curtailment of operations unless sufficient cargo space can be obtained to move Cuban raws. The Maritime Commission is reported to be seeking a solution to the problem.

†Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. ★—Thousands. NA—Not available.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Oct. 11	1¼%	1¼%	1¼%
Prime Commercial Paper	Oct. 11	½-¾%	½-¾%	½-¾%
Call Money	Oct. 11	1%	1%	1%
Re-discount Rate, N. Y.	Oct. 11	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Oct. 8	3,074	3,219	2,276
Cumulative year's total to	Aug. 31	15,905	......	11,974
Bank Clearings, N. Y.	Oct. 8	3,744	3:745	2,935
Cumulative year's total to	Aug. 31	14,158	......	11,388
F. R. Member Banks				
Loans and Investments	Oct. 1	29,125	29,120	24,329
Commercial, Agr., Ind. Loans	Oct. 1	6,447	6,389	4,630
Brokers Loans	Oct. 1	494	481	446
Invest. in U. S. Gov'ts	Oct. 1	10,982	11,070	9,280
Invest. in Gov't Gtd. Securities	Oct. 1	3,319	3,327	2,582
Other Securities	Oct. 1	3,806	3,769	3,682
Demand Deposits	Oct. 1	24,277	24,390	21,152
Time Deposits	Oct. 1	5,439	5,431	5,359
New York City Member Banks				
Total Loans and Invest.	Oct. 8	12,188	12,237	9,600
Commercial, Inc. & Agr. Loans	Oct. 8	2,515	2,482	1,781
Brokers Loans	Oct. 8	356	354	288
Invest. in U. S. Gov'ts	Oct. 8	5,099	5,140	3,917
Invest. in Gov't Gtd. Securities	Oct. 8	1,869	1,862	1,410
Other Securities	Oct. 8	1,534	1,581	1,427
Demand Deposits	Oct. 8	10,701	10,672	9,737
Time Deposits	Oct. 8	771	760	719
Federal Reserve Banks				
Member Bank Reserve Balance	Oct. 8	13,290	13,240	13,927
Money in Circulation	Oct. 8	10,237	10,183	8,199
Gold Stock	Oct. 8	22,772	22,761	21,349
Treasury Currency	Oct. 8	3,203	3,196	3,048
Treasury Cash	Oct. 8	2,241	2,259	2,294
Excess Reserves	Oct. 8	5,210	5,190	6,820
		Latest Month	Previous Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Aug.	402	130	181
New Capital	Aug.	327	44	70
Refunding	Aug.	74	86	113

COMMENT

Commercial loans of New York City Member banks are now at the highest level in more than ten years. In the most recent week the gain was $33,000,000, bring the total loans to commerce, industry and agriculture up to $2,515,000,000. In the same week, however, total loans and investments dropped $49,000,000, reflecting a decline of $81,000,000 in investment. Holdings of Treasury bills were off $5,000,000, Treasury notes off $25-000,000, treasury bonds $1,000,000 and holdings of other securities dropped $47,000,000. Domestic bank deposits were off $94,000,000, doubtless in reflection of the heavy consumer buying wave just prior to the imposition of new taxes on Oct. 1.

* * *

Actual reserves of all member banks rose $50,000,000 in the latest week, while excess reserved increased $20,000,000. The increase in reserves came about chiefly from a reduction of $23,000,000 in Treasury cash and deposits, a decline of $42,000,000 in non-member bank deposits and increase of $21,000,000 in Federal Reserve credit in use. Currency circulation increased $54,000,000 to a new record high, while gold stocks were up $11,000,000.

* * *

All previous records will probably be broken by the size of the public subscriptions to the new Treasury offering of $1,200,000,000 2½% bonds, at par. Subscriptions are reported to have totaled nearly $10,000,000,000, including one by the City of New York for $100,000,000. The attractiveness of the new offering and the unrelenting pressure of funds for a suitable investment outlet explain the unprecedented demand for this new offering.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1941 Indexes High	Low	Oct. 4	Oct. 11
290 COMBINED AVERAGE	56.9	46.3	54.1	51.9
4 Agricultural Implements	99.9	72.2	92.9	86.8
9 Aircraft (1927 Cl.—100)	199.4	137.1	185.1	178.9
4 Air Lines (1934 Cl.—100)	314.1	198.9	279.0	291.0
6 Amusements	31.7	20.8	30.6	29.7
14 Automoble Accessories	95.7	74.8	83.3	79.0
13 Automoblies	11.1	7.5	8.9	8.5
3 Baking (1926 Cl.—100)	10.7	7.4	7.5	7.4f
3 Business Machines	104.6	86.5	103.0	97.6
2 Bus Lines (1926 Cl.—100)	64.3	43.9	52.2	50.7
8 Chemicals	165.8	135.5	159.1	153.2
18 Construction	26.1	19.5	22.9	22.1
5 Containers	203.7	166.0	185.1	180.1
10 Copper & Brass	88.8	68.8	74.5	72.4
2 Dairy Products	29.9	25.5	29.8	29.0
6 Department Stores	23.2	16.7	22.1	20.9
6 Drugs & Toilet Articles	45.4	31.1	43.8	43.0
2 Finance Companies	182.3	134.8	145.7	141.0
7 Food Brands	93.1	74.9	91.0	87.1
2 Food Stores	45.2	36.7	44.4	43.6
4 Furniture	42.2	33.6	35.7	35.1
2 Gold Mining	703.8	571.9	591.3	571.9x
6 Investment Trust	19.2	15.1	18.3	17.4

Nov. 14, 1936, Cl.—100)	1941 Indexes High	low	Oct. 4	Oct. 11
100 HIGH PRICED STOCKS	60.10	51.01	57.15	55.34
100 LOW PRICED STOCKS	48.83	37.78	45.10	42.74
3 Liquor (1932 Cl.—100)	169.9	111.5	168.6	164.1
9 Machinery	111.9	88.0	94.2	89.9
2 Mail Order	75.6	64.3	68.2	65.2
4 Meat Packing	53.2	40.3	48.1	44.1
11 Metals, non-Ferrous	138.6	109.5	122.0	117.6
3 Paper	14.2	11.0	13.5	13.1
21 Petroleum	86.1	67.4	82.7	80.9
18 Public Utilities	38.6	22.1	23.6	22.1r
3 Radio (1927 Cl.—100)	9.9	6.7	8.0	7.4
9 Railroad Equipment	48.0	36.3	40.8	38.8
17 Railroads	11.6	7.5	10.3	9.8
2 Realty	2.9	1.6	2.1	2.0
2 Shipbuilding	129.7	102.3	118.8	110.5
12 Steel & Iron	82.6	62.8	68.5	65.4
2 Sugar	37.7	17.5	35.4	34.2
2 Sulphur	194.3	161.0	182.9	176.8
3 Telephone & Telegraph	45.9	33.2	44.8	41.9
2 Textiles	48.5	33.0	42.0	38.8
3 Tires & Rubber	13.6	9.5	13.6	12.9
4 Tobacco	73.7	62.1	67.7	66.8
3 Variety Stores	213.7	184.8	211.2	207.6
19 Unclassified (1940 Cl—100)	105.7	86.3	100.8	97.4

f—New LOW since 1933. r—New all time LOW. x—New LOW this year.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

International Nickel Co.

I haven't written to you for some time about my International Nickel shares of which I own 100 (price paid 36). But due to the sudden spurt in the price of this stock of late, I'd like to be guided by your advice. What factors account for this showing? Are earnings for the latter part of 1941 likely to be ahead of all expectations? . . . Ahead of the $2.31 earned last year in spite of fixed prices, high taxes and operating costs? Will Nickel's new expansion program mean increased capacity? Is the Company still delivering copper to Great Britain at a price 2 cents below world quotations? In view of the fact that this stock is now at a new 1941 high—rather close to my purchase price, do you counsel selling?—B. H., Milwaukee, Wisconsin.

In our opinion the recent strength in the stock of International Nickel Co. was due either to the belief that earnings for the balance of 1941 may show an improving trend and a wider coverage of the 50 cents quarterly dividend now being paid or the result of a more optimistic outlook in the theatre of war which appears to be forecasting improved chances of an early Allied victory. The outcome of the war is quite important to this company since it produces approximately 85% of the world's output of nickel, first in the production of platinum and allied metals as well as being one of the four large copper producers. Mines and smelters in Canada have an annual capacity in excess of 8,000,000 tons with reserves at the close of 1939 approximating 230,000,000 with substantial property unexplored; a copper and nickel refinery in Canada; platinum refineries and nickel rolling mills in Great Britain as well as processing properties in the United States; an investment of $6,723,000 in a nickel mine in Finland, all attest to the important stake of the company in the outcome of the war.

Prices for company's products have a relatively fixed ceiling while taxes are of course increasing (1940 taxes equal to $1.45 a common share compared with 78 cents a share in 1939; first half of current year $1.00 per common share compared with 63 cents a share in the same period of 1940) but a 20% expansion program is now under way which will increase the annual output considerably. While taxes will undoubtedly take an increasing amount of expanded earnings, some should be carried down to net applicable to the equity interests of the company. It was announced in the early part of the year that the company had agreed to deliver to the British Government approximately 80% of its output of electrolytic copper price at about 2 cents below world prices. Such an arrangement appears to be continuing as well as the Canadian Government's permission to disburse dividends in United States dollars. While the current dividend rate of $2.00 per annum does not appear impregnable, it is believed that in view of strong financial position, possibility of increased earnings, more favorable outlook in the European conflict, ever-increasing tempo in rearmament, that the outlook is sufficiently promising at this time to warrant full retention of your commitment.

Allegheny-Ludlum Steel Corp.

I have in mind adding to my 100 share investment in Allegheny-Ludlum at current price. Would you say that since this stock is selling around its high for the year, it would be inadvisable to do so? I paid 26 for my shares last year, subsequently to find I bought at the high. What should the company's new Dunkirk plant mean in the way of increased capacity? How do backlogs stand now? Do you believe that earnings for the second half of 1941 should equal or exceed the $3.22 per share earned for the first half? I understand expansion costs estimated at $2½ billions will actually run twice that figure. How will earnings suffer? What allowances are being made for new taxes? How should curtailment of auto production affect net? . . . Was this source the primary source of income for the first half of 1941? What about profits in relation to volume on defense orders? What does your analysis indicate of Allegheny-Ludlum's appreciation—dividend prospects now?—Mrs. E. B., New York City, N. Y.

It is not expected that Allegheny-Ludlum Steel Corp. will continue to

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show as sharp an expansion in earnings as was reported in the first quarter of 1941 when $2.12 per share was earned as compared with 72 cents per share for the first quarter of 1940. This conclusion is reached mainly on account of the increasing burden of taxes and excess profits taxes which were not deducted from first quarter earnings. Nevertheless it is believed that earnings for the full year 1941 will run between $4 and $4.50 per share, after all taxes. Higher operating costs and materials may cause a slight contraction in earnings expansion even though operations are expected to continue at capacity levels for some time to come. Having concentrated most of production in alloy and specialty steel products, such should be favorable in view of demands on the steel industry in our all-out aid to the democracies. Expansion of facilities such as the construction of a defense plant at Dunkirk, N. Y., which is to be devoted entirely to armament and defense production, producing alloy steel bars and rods important to defense production, should substantially contribute to the earnings capacity of the company. While the estimated cost of the plant and equipment has been increased from $2,500,000 to $4,000,000 the plant is being financed by the Defense Plant Corp. Under normal conditions a sharp contraction in automobile production would severely affect earnings but in view of the unprecedented tempo of defense production, such a condition is somewhat alleviated. In the first half of 1941 when earnings of $3.22 versus $1.42 per share in the comparable period of 1940 was reported, provisions were made for normal Federal taxes under the second Revenue Act of 1940 as well as for excess profits taxes but no provision was made, however, for any increase in these taxes.

By calling 15% of the outstanding preferred stock the company now has only 28,375 shares outstanding which will of course aid earnings. The near term outlook, however, forecasts the continuation of conservative dividends even though working capital position at last reports was satisfactory. It is believed that full year dividends will approximate $2 per share with the possibility of a small extra payment at the close of the year. At current levels the common stock of this company is considered above average in the steel group and in periods of reaction it would appear that additional purchases would be warranted.

National Dairy Products Corp.

Are your analysts of the opinion that National Dairy has just begun to respond to a situation which will greatly favor its market and income position? I bought 100 shares at 14 earlier this year. Is sales volume now exceeding the 17% gain over 1940, shown in the first half of 1941? How much in excess of the $1.66 earned last year is expected for 1941? What about Federal price controls? Isn't much of National's increasing net due not only to record volume but higher prices? Do you see ahead a squeeze in profits for this Company due to rising processing and distribution costs and taxes on the one hand, and on the other the prospect of Government regulation of prices to the consumer? What are the prospects of higher prices for mills? What do you know of profits on the Company's sales to the U. S. Government for Army use and export under Lease-Lend? Please analyze this situation and favor me with your advice.—Miss R. G., Darien, Connecticut.

The recent strength in National Dairy Products Corp. stock is attributed in part to investment buying which has lifted its price level to the year's best level. The basis for this favorable action seems to be prompted by the improved earnings for the first six months of 1941 when 90 cents per share was earned as compared with 76 cents per share for the same period last year. It is believed that last half results will show a further improvement lifting total earnings for the full year in excess of the $1.66 per share for the year 1940 and closely approximating the 1939 results of $1.97 per share. While dividends so far this year have been paid on the same basis as in 1940 it is considered a possibility that the last quarter distribution will either be in excess of the usual 20 cent payment or a small extra may be declared.

With the increasing tempo of exports to Great Britain and the Allies, sales volume is continuing its favorable improvement over 1940 and should continue to increase in volume. Products such as evaporated milk, ice cream and cheese is especially favorable to earnings since profit margins are higher than on fluid milk. Operating costs and taxes are of course increasing but retail prices have been advanced allowing for a continuation of favorable earnings. There is always a possibility of Government regulation of prices to the consumer but we do not think that this company will be subjected to a squeeze strong enough to produce an unfavorable outlook for near term earnings. Profits on Government orders and exports under the Lease-Lend Act should continue satisfactorily, especially so in view of the volume proportions.

The competition in the industry is keen but coupled with the development of new products, strong financial position and improved sales in wider profit margin products, we view the future for this company sufficiently promising to warrant full retention of your commitment which is considered of a semi-investment grade.

Cerro de Pasco Corp.

At what price is the U. S. Government buying Cerro de Pasco's annual copper output? Does that price, allowing for production costs, shipping premiums, etc., make it possible that earnings this year will materially exceed the $2.40 earned in 1940? I have 75 shares for which I paid 39⅝—and should like to know what I can expect of my shares marketwise, and from the standpoint of income. Do you believe that the U. S. Government is inclined to further price incentives to Latin American producers? Can Cerro de Pasco further substantially increase its output? And, are ships available for transportation? How is the company being affected by Peruvian export taxes and increased income taxes . . . virtual elimination of its Japanese market? Taking all factors into consideration—does this stock offer better than average attraction for an investor interested in stable income as well as market profits. —J. M. G., Hastings-on-Hudson, N. Y.

Copper production of Cerro de Pasco Corp. is running approximately 6,000,000 pounds a month of which about 5,000,000 pounds is being sold to the United States Government at 10 cents a pound. This price compares with 11.16 cents a pound received by the company for all copper sold during the year 1940. Transportation facilities are preventing shipments of lead and zinc which is becoming of increasing importance to the company. Lead production in the first three months of 1941 amounted to more than 17,000,000 pounds of which 9,800 tons of the refined product has been accumulated in addition to 6,800 tons of zinc concentrate which are both held in Peru. It is expected that in the near future the company's new refinery facilities for lead, zinc and ores costing approximately $4,500,000 will be completed. Reserves of these metals are estimated to approximate 18,000,000 tons. While capital ex-

penditures during the year will closely parallel those of 1940, depreciation charges should cover such outlays.

At the annual meeting of the company which was held in the early part of May the stockholders were told that earnings were at about the same levels as last year and were covering dividend requirements. In the first six months of 1941 earned 1.10 per share versus 1.41 per share in the same period of 1940.

Dividends in recent years have not been completely earned. It is possible for the company to continue liberal dividends over the near term since their financial position is very strong. Improvements have been made possible without recourse to borrowings and an investment of approximately 39,000 shares of American Metals common stock represent its main investment outside of its own business.

In view of the efforts of the American countries to foster trade among themselves, it is believed that future operations for this company are favorable. We do not, however, expect any substantial increase in earnings for the year 1941 but we do feel that current dividend rates will be maintained and that the future which is mildly promising warrants full retention of your commitment in this stock for income.

International Harvester Co.

I will appreciate your analysts' advice on my 50 share investment in International Harvester bought at 61. Do you believe that the company can do much better than the $4.11 per share earned in 1940 with an added wage burden of $10 million, higher taxes and operating costs with selling prices of farm equipment held down? How do you regard the company's profit outlook in the farm equipment field?—Profits on army truck, artillery and other military equipment production? How successful has the company's research on substitute material of those under priority proven—at what costs? Has the company begun to farm out orders to subcontractors?—what effects should this procedure have on the continuation of profits at higher levels? Under the influences faced by this company, do your analysts forecast active demand for these shares by investors interested in appreciation as well as modest but steady income?—P. Mc., Chicago, Ill.

It is expected that International Harvester Co. will earn in the neighborhood of $5.50 a share for the fiscal year which ends October 31, 1941. This compares with $4.11 per share in the fiscal year 1940 exclusive of foreign subsidiary income and $1.71

per share in the year 1939 which included income from foreign subsidiaries. The increasing trend in wages will of course have a restricting influence on profit expansion due to low margin of profits in certain divisions of company's works. The company is attempting in some way to offset this unfavorable factor by increased selling prices which have not as yet been definitely granted by the O.P.M. Heavier taxes are a drain upon earnings but with increasing farm income, sales in that division should be higher since farm commodities are currently selling at relatively high levels. Competition is keen in this field but in occupying the leading position in the industry, enjoying a strong financial position and an established trade position, it does not appear likely that its dominant position will be endangered.

The company is contributing to our defense program through the production of tractors, army trucks, artillery, shells and other military equipment. If a curtailment in non-defense spending should be considered applicable to this company these defense orders will tend to cushion any decline from that source. In addition to the numerous domestic plants, manufacturing facilities are held in France, Germany, Sweden and Australia. To protect this investment of approximately $61,000,000 a reserve of $30,000,000 was set up during the 1939-1940 fiscal year. An important factor not yet realized to the fullest extent is the growing shortage of farm labor which should result in an increase in mechanized equipment to offset such loss.

Since the company operates in three main fields namely, the steel industry, motor trucks and farm equipment, it is not likely that adverse priority treatment will be forthcoming. In view of the large facilities of the company, sub-contracting does not appear to be an immediate probability although the management is sufficiently broad-minded to avail themselves of such facilities if it is necessary to speed up output.

Dividend distributions will in all probability compare favorably with 1940 results and it is our belief that the stock of this company is worthy of full retention at this time. It occupies a dominant position, manufacturing implements of war and indirectly by supplying equipment used in the cultivation and growing of basic food commodities. Therefore its future, in our opinion, is promising.

Barnsdall Oil Co.

What is your opinion of the appreciation prospects of Barnsdall Oil now? I bought my 125 shares around 20. Have you any information on hand as to the effects of April-May crude price advances on earnings since June report of 58c per share? How much did Barnsdall net from its sale of properties in West Texas to Stanolind Oil? Will it turn out that the company has lost more in valuable reserves by this sale than it has gained? What is Barnsdall's position in respect to transportation difficulties? What, approximately is this company's net output of crude? Have any new reserves been tapped of late? How are costs of drilling operations, lease acquisition charges, etc., affecting net? How does this company stand under the new tax law? Do you see steady earnings progress for this company ahead—indicating that retention will be rewarded?—Mrs. R. McB., Fort Worth, Texas.

It is estimated that in the first nine months of 1941 Barnsdall Oil Corp. will earn about 95 cents per common share as compared with actual earnings of 73 cents per share in the corresponding period of 1940. These earnings were aided in part by the higher crude prices since early April and such an improving trend should continue over the near term. The activities of this company are now limited to the development and production of crude oil and conditions affecting the prices of crude oil will of course be favorable to earnings. Recent sale of certain of the properties of Barnsdall Oil Co. in West Texas netted the company $3,247,044 after commissions and other incidental expenses. A profit on the transaction of $2,504,507 was realized by the company and credited to earned surplus. It is now possible to reduce the funded debt of the company from $7,500,000 to $3,400,000 as the result of monies received from this sale. It has further been reported that while the company did lose reserves through the sale of this property, discoveries of new reserves in other areas during the first six months of this year has more than offset the loss. Crude oil output for the company during the year 1940 was 6,751,677 barrels and with increasing exports it is quite possible that the output in 1941 will show a modest improvement over this result.

It is our belief that the stock of Barnsdall Oil Co. is worthy of retention at this time although it must be considered as slightly speculative. Dividend distributions assuming that earnings will continue favorable over the balance of the year should be in line with dividend distributions during the year 1940. With the strengthening of the financial position of the company, it is possible that a small extra dividend may be paid at the close of the year.

Miami Copper Co.

Is Miami Copper a buy or a sale at its current price of around 7? The reason I ask is that I hold 200 shares bought at 6¼ believing that this marginal producer should "go places" under Government subsidy. The stock has come down from its 1941 high of 9⅝ despite the fact that capacity operations continue. Is this a reflection on the likelihood that earnings this year will not exceed 70c per share earned in 1940? Are costs advancing out of line with volume? What about the effects of new taxes this year as compared to last year? Is the grade of ore now being mined of better than usual quality? Is it probable that Miami will be one of the companies offered a 14 cent price for copper? Is this company in a position to produce on that price? Kindly advise we whether retention is advisable now.—E. J. F., Los Angeles, Calif.

The outlook for Miami Copper Co. stock is not considered outstandingly optimistic at this time. Operations for this marginal producer is restricted on one side by the price ceiling for copper and on the other by increasing costs of operations and rising tax burdens. The grade of ore handled is of relatively low copper content and therefore a wide expansion in profits is not expected. It is believed, however, that even in view of higher operating costs and taxes that earnings for the year 1941 may show a moderate improvement over the 70 cents per share earned in 1940 which compared with 1939 earnings of $1.03 per share. Such results were, however, before depletion. The company usually accounts for slightly under 5% of the domestic copper output while by-products of silver and gold have been unimpressive. Molybdenum as a by-product is showing an increasing importance in company's profits. The newly acquired water service should aid results for in the past from time to time operations have been restricted due to the lack of sufficienct water. Capacity operations are expected throughout the balance of the year and the early part of next year.

While there has been some discussion anent raising ceiling for copper to 14 cents from the 12 cents

now in effect, such has not been definitely decided upon as yet. It is quite probable that such a raising of prices may increase production which would, however, still fall short of current demands for copper.

The financial position of the company is improving and it is believed likely that speculative holdings are worthy of retention in view of the strong demand for copper as a result of our all-out aid to the Democracies. As to whether the stock will record a substantial advance over the near term is more or less dependent upon the market as a whole. Nevertheless moderate appreciation is likely and dividends are expected to compare favorably with 1940 distributions.

Seven Favored Consumer Goods Stocks

(*Continued from page* 30)

per store are well above average.

Based on the average number of stores operated at the beginning and end of 1940, G. C. Murphy had average sales per store of $262,900, whereas F. W. Woolworth had average sales of $165,700 per store. Operating returns per store showed wider variation, being around $28,200 for Murphy compared with $15,200 for Woolworth. Analysis of similar data for prior years indicates that the spread both in average sales and returns per store has steadily widened in favor of G. C. Murphy since 1935, previous to which Woolworth had the better record. More striking is the gain in average sales per Murphy store from $95,200 in 1926, and the pronounced rise from operating earnings per store of $6,600 in that year. Woolworth, on the other hand, has seen its average sales per store slump from $174,600 in 1926, and operating earnings per store drop from a 1926 average figure of $18,400.

Except for a moderate decline in 1938, sales and profits of G. C. Murphy have risen to new peaks every year since 1932. A sales gain of about 15 per cent over 1940 is expected this year, but profits after taxes are likely to remain around the $6.48 per common share reported last year. Wholesale merchandise and other costs are advancing, but some flexibility in selling prices and quantities is permissible.

An unbroken record of dividend payments has been maintained since 1921, and payments have been fairly liberal in recent years. The prevailing annual dividend rate of $4 per share is considered secure on the basis of well maintained earning power, and the stock has attracted investment purchases for income, with prices currently near the high for the year.

Other than the 480,500 shares of no par common stock, capitalization includes 40,000 shares of $5 cumulative preferred stock, and some $560,000 in long-term loans.

The Case for Common Stocks in Today's Investment Portfolios

(*Continued from page* 23)

earnings, while many of the more staid common stocks, with a much less spectacular earnings background, sell from twelve to fifteen times earnings. Investors apparently are, and always have been, willing to pay a premium for these issues, realizing that in the final analysis there is no substitute for quality.

In the conception and management of a sound investment program, whether it be for a large life insurance company or an individual with limited capital, it is the results that count. All common stocks are not risky speculations, nor are all bonds high grade investments. One might as well say that only red apples are good and all others are unripe and inedible. Over the past ten to fifteen years many common stocks have produced investment results much superior to those of many second grade bonds and unless the next few years bring sweeping changes in our national economy and the profit system, the argument against the investment merits of *good* common stocks must rest almost wholly upon supposition and conjecture.

In the present setting selected common stocks afford a timely medium for bolstering investment income. Yields on even the best issues range from 5 to 7 per cent, and in not a few instances present prices would still afford a better-than-average return, even if the current rate of dividends were lowered under the impact of heavier taxes. A considered choice of such issues based on the security and adequacy of dividends might be advantageously added to investment portfolios at the expense of low yielding bonds and preferred stocks.

A Declaration of War

(*Continued from page* 15)

establishing Germany supremacy over the near and mid-east and north Africa. The latter threat relates to the seaways to the Western Hemisphere and our supply route to England—hence we could not be indifferent to it. North Africa is the one area of probable warfare in which it might become in the foreseeable future both necessary and feasible to employ an American expeditionary force, supplementing what are probably inadequate numbers of British and Allied troops. Such a joint undertaking would be essentially defensive, in that its purpose would be to keep the lines of the blockade intact—to keep Hitler on the Continent.

At present even to speculate on the possibility of developing a dynamic Allied land offensive against Germany proper—requiring huge expeditionary forces—would be absurdly premature. For the foreseeable future our most urgent job will continue to be to get arms to Russia, England and Egypt. Beyond that about all we could do now or any time soon would be to put our Navy to full war use, and possibly to a limited extent supplement British air power with U. S. Army aircraft and aircraft personnel.

Since the near term course of the war could be so little affected by our declaration of war, why should we make it now? In my opinion there are two sets of strong reasons, as follows:

(1) It would end our increasingly intolerable confusion of mind, unite the nation on an objective which majority opinion has accepted but which under our present equivocal status can not be served with anywhere near maximum effectiveness. It would minimize, if not end, partisan politics at Washington for the duration. It would put compelling pressure on the leaders of the labor unions to end factional strife, to

cease exploiting the defense emergency, to buckle down to uninterrupted production at whatever hours of work would yield maximum efficiency of output. It would make it politically feasible for the Government to cope resolutely and realistically with the problems of inflation and taxation, providing as to both matters a relatively high degree of certainty for the duration instead of the present continuing uncertainty which makes speculators of business men and which has paralyzed the decision of investors. In short, it would facilitate the transition to the full war economy, which is unavoidable in any event.

(2) It would have a profound psychological effect for the good, not only in this nation, but throughout the world. It would inform the world—beyond possibility of doubt and crossed fingers—that we are committed to seeing this thing through to the finish; seeing it through in our own way, but seeing it through. If anything can decisively weaken German morale, kill Italy's last lingering spark of war spirit, freeze Japan in her tracks, this is it. If anything can stiffen the resistance of the conquered peoples and embolden them to more sabotage against the Nazis this is it. If anything could induce a battered Russia to continue fighting indefinitely, whether at the line of the Urals or even further back in Siberia, this is it. If anything could block Vichy cooperation with Hitler and strengthen the Free French forces this is it. To the extent that it is possible to bolster Britain's already strong will to resist, this could do it.

Quite aside from mere partisans, I know that numbers of people in this country have genuine and deep misgivings over President Roosevelt's demonstrated liking for personal power, and that they are reluctant to see centered in his hands the still greater personal powers of a war President. To clear the record so far as my own political predilections are concerned, let me say that I have shared these misgivings and that I voted against Mr. Roosevelt in each of the last two national elections.

But Mr. Roosevelt was duly elected. He is my President and yours, at least for several more years. Moreover, to keep our thinking straight, it is Hitler who has pushed us into a regimented war economy, not Roosevelt. When Hitler is beaten, we will at least have our democratic choice as to what kind of economic system we shall have and what will be the relations between private enterprise and the Government. But until the Nazi threat is ended, we can not have *any* freedom of choice on this matter.

Therefore, I conclude that the "I-don't-trust-Roosevelt" argument against a formal war status is unsupportable.

Coming Economic Revolution

(*Continued from page 13*)

solid metal and simultaneously moulded to any desired form or shape.

For a great many purposes this method would effect major savings in costs and time by eliminating the now common forging or machining processes required to shape metals. For instance, according to Dr. John Wulff, metallurgist of the Massachusetts Institute of Technology, present methods of converting stainless steels into finished forms entail "the most difficult machining processes in the world;" but by reducing such steels to powder, comparatively simple moulding techniques permit eliminating great machining costs.

Thus far known simply as Formula C-102, a new non-metallic material—developed by the United States Rubber Company—is one-third lighter than aluminum and is designed to replace that metal in certain important defense uses. Except for small amounts of rubber, it is made from non-strategic materials and will not be affected by priorities. It has already been tested and approved by the Army. Under gunfire it resists ripping or shattering. It will not crystallize from vibration, and is free from corrosion or pin-hole formation. Undoubtedly peace-time uses will be found for it in future.

A method has been perfected for producing chlorine and sodium sulphate—two chemicals in exceptionally heavy demand—from sulphur and common salt. Over the long term it may importantly expand the markets for these two old materials.

Developments to date in synthetic fibres, plastics and synthetic rubber are but a small start toward the "synthetic age" which lies ahead. These things are not "substitutes." They—and many others to come—represent completely new forms of industrial raw materials, *which are "tailor made" to precise specifications!* Think that over a moment, and the revolutionary economic potentialities and implications begin to sink in.

Take lumber. Its natural characistics and qualities are limited in number and are largely inflexible. You have to fit your purpose to its characteristics. It is just the opposite with plastics. They can be made to fit your purpose. There are similar differences in versatility between natural rubber and synthetic rubber—the latter name being quite unsatisfactory and misleading.

Many synthetics have two commanding economic advantages over natural raw materials: (1) versatility and controllability; (2) unlimited supplies of "raw materials" which are transmutable at low cost by chemical magic. Among the key "raw materials" of the synthetic age are such plentiful things as ocean water, air, salt, petroleum, coal, limestone.

Even in some of the oldest, most tradition-bound industries there are stirrings of radical change. Take construction, a tremendous field with a tremendous long term potential. In good years the total outlay, including repair, is 8 to 10 billions of dollars—more than double the automobile market. Of all major industries, this one has undergone the smallest technological revolution, partly due to organized labor-resistance to cost-reducing changes. True, the pick and shovel and the horse and scoop are becoming uncommon in excavation work, and there have been substantial improvements in quality and variety of some of the structural materials—but a house is still a thing assembled, bit by bit and by hand, from literally thousands of "parts."

The route to a real mass market—which awaits structurally sound homes within reach of families with incomes of $1,500 a year or less—may or may not be opened by "prefabrication," but certainly its general direction must be toward a radical reduction in number of "parts" required, for in no other way can the economically extravagant toll of labor costs be effectively reduced. Progress in that direction will be speeded by the time pressure now in-

volved in defense housing. For instance, early this month the Celotex Corporation exhibited to the press a group of homes constructed near Baltimore for defense workers of the Glen L. Martin Company utilizing a unique type of construction which includes a single-thickness wall material that takes the place of the traditional multiple layers of sheathing, building paper, insulation, plaster, wallpaper and paint. Other manufacturers of building materials are also working toward the objective of "parts" reduction.

The most basic and far-reaching potentiality of economic revolution, however, is wholly outside the question of technology. It relates to the form and motivation of our economic system itself. You and I will gain absolutely nothing by closing our eyes to this potentiality, by denouncing it as "Socialism" or "State Capitalism," by wishfully assuming that American people will never go for it.

The fact is that the social unrest of recent years—the thing that swept both Hitler and the New Deal to power and which in every free democracy has put the balance of political power in the hands of "the common man"—has had an obvious and undeniable foundation: the "common man's" profound dissatisfaction with the economic status quo. We have seen the beginnings of a continuing mass revolution against the economics of scarcity and the individual's economic insecurity.

The American "common man," of course, wants freedom and opportunity. But, after all, these are abstract generalities to the jobless worker who doesn't know where the current month's rent is coming from or to the farmer who doesn't know, as he seeds his acres, whether some months hence his produce will fetch $1 a bushel or 40 cents. To be quite blunt about it, our "common man" has put "increased security and a higher living standard" first on his list—and he is voting for the politicians who promise the most of same. He would much prefer to get what he believes to be his due from our traditional private enterprise system—but twice in eight years he and his likes have re-elected a regime which openly advocates and practices centralized governmental management of our economic-financial system, which puts people and material things above money items on the books, and which does not believe that traditional concepts of money and finance are sacred. What this government is doing today is a change in degree from what it was doing before the war began, but not in principle. If the "common man" is either afraid of the socialistic implications of the principle or dissatisfied with the results to date, he certainly has yet to show it in his voting preferences.

Under the impact of war, for the second time in virtually one generation—the "common man" is seeing a practical demonstration of the nation's power to relegate monetary considerations to the background and to put primary emphasis on production, production and more production. He is seeing that the demonstrated requisites of production are materials, machines, labor, executive direction—not gold or "money." With enormous variations in monetary strength—as traditionally measured—between the United States, Germany and Great Britain, he is seeing each of them get record-breaking production.

Of course, this is production for war. But when this Second World War is over you can't be surprised if the "common man" asks this insistent question: "If the Government can organize production for war, utilizing the creative abilities of private enterprise and managing the monetary system for socially valid objectives, why can't it do the same—or at least something that gets results—as regards maximum production for peace?"

There will have to be an answer to this. What it will be—and how satisfactory it may be in the long run to either the "common man" or to you and me—the writer certainly does not pretend to know. We are on our way to startling changes—some of which *could* be for the better—and there will be no "going back" to the dead past. There never has been.

Japan at the Crossroads

(*Continued from page 20*)

Japanese trade with practically all countries commercially important to her (with the exception of Mexico and Venezuela) was severed. Japan, which has lived and prospered by processing raw materials bought and resold abroad, has become dependent upon the comparatively slender resources of her own Empire.

The embargo has created hundreds of new problems for the Island Empire, the most important being, of course, to keep economic life sustained. The economic pressure must be terrific. Yet to anticipate any general economic collapse in the near future, even in view of the drain from the four-year war in China, would be foolhardy at this time. In the first place, Japan has accumulated considerable reserves of supplies, including iron ore, scrap, coal, rubber, non-ferrous metals and leather. The petroleum and petroleum products supply was estimated by Dr. K. Bloch of the Institute of Pacific Relations, if supplemented by the current production in Sachalin and of course, rigidly, rationed to be large enough to last for at least three years.

The growing shortage of food and the reported withdrawal of deposits from banks by common people for laying in supplies is likely to give more impetus to the upward price-cost spiral and bring the country closer to a run-away inflation.

Unquestionably Japan is under terrific strain. Any demilitarization of her economy, any revival of her foreign trade, would spell relief. But we too would be relieved of maintaining precious ships and airplanes in the Pacific when they could be used against Hitler in the Atlantic. The circumstances favor, therefore, the reaching of some understanding with Japan

Another Look at—The Office Equipments

(*Continued form page 33*)

engage directly in the manufacture of defense materials. Over the longer term, however, it is pos-

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACTS OF CONGRESS OF AUGUST 24, 1912, AND MARCH 3, 1933

Of THE MAGAZINE OF WALL STREET *and* BUSINESS ANALYST, published bi-weekly at New York, N. Y., for Oct. 1, 1941.
County of New York }
State of New York } ss.

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Laurence Stern who, having been duly sworn according to law, deposes and says that he is the Managing Editor of THE MAGAZINE OF WALL STREET *and* BUSINESS ANALYST and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, as amended by the Act of March 3, 1933, embodied in section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher—C. G. Wyckoff, 90 Broad Street, New York, N. Y.
Editor—None.

Managing Editor—Laurence Stern, 90 Broad Street, New York, N. Y.
Business Managers—None.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

Ticker Publishing Company, Inc., 90 Broad Street, New York, N. Y.

C. G. Wyckoff, Inc. (Stockholder), 7 West 10th Street, Wilmington, Del., the stockholders of which are: C. G. Wyckoff, 90 Broad Street, New York, N. Y.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.)

Cecilia G. Wyckoff (bondholder), 90 Broad Street, New York, N. Y.

C. G. Wyckoff, Inc. (bondholder), 7 West 10th Street, Wilmington, Del., the stockholders of which are: C. G. Wyckoff, 90 Broad Street, New York, N. Y.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustee, hold stock and securities in a capacity other than that of a bona fide holder; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the twelve months preceding the date shown above is—(This information is required from daily publications only.)

LAURENCE STERN,
Managing Editor.

Sworn to and subscribed before me this 8th day of October, 1941.

[Seal] THEODORE M. FARLEY.

(My commission expires March 30th, 1943)

sible that the company's interest in other types of products will increase and if this is the case, there is no doubt but that the skill of the company's mechanics in the manufacture of precision devices will quickly find ample employment.

On the other hand, a good demand for regular products by the Government and defense industries has not prevented Addressograph Multigraph from also exploring the possibilities of direct defense work. Addressograph Multigraph sells machines for addressing, duplicating and other similar uses and has an excellent source of additional revenue from the sale of supplies to be used in these machines. Since they simplify office routine by mechanical means, they are needed in large quantities in the ever expanding Government bureaus as well as business and industry. At the end of the first half of this year, the company had on hand unfilled Government orders in the amount of $6,100,000 and there is a strong possibility that this amount has since been augmented. Up to the present time, priorities have not had a drastic effect upon the company's business, mostly because the company has been successful in finding acceptable substitutes for scarce materials. This fact, together with increasing armament business, should prevent the company from experiencing a too-great let down during the period of the emergency although once the war is out of the way, the company's prospects are no better than those of others engaged in similar lines of effort.

The typewriter manufacturers, due to the heavy need for writing machines, mostly by the Government, have been experiencing a more than satisfactory year despite the fact that normally important exports have been at new low levels. In the case of Underwood Elliott Fisher, earnings for the first half of 1941 were $2.56 a share of common stock as compared with about $1.46 a share in the same period of 1940 and $1.17 a share in the first six months of 1939 which was the last of the war free quarters. The half year results were prior to allowances for the latest tax schedule and accordingly it is probable that extra tax provisions will be deducted from last half earnings. Thus, while the company's sales will continue at high levels, earnings for the second half of this year will be somewhat lower than in the first six months although it is expected that full year results will exceed the $3.03 a share reported last year, by a comfortable margin. Over the longer term, it is likely that priorities and shortages of raw materials will hamper the company's machine production and the decline will only be partially offset by Army orders for various munitions items and other armament work.

It is possible that the office equipment industry has reached a ceiling for the sale of the normal products of the trade. Also, mounting costs and taxes will make it necessary to increase the business done by a substantial margin even if present earnings are to be maintained. After the emergency has passed, there will probably be a long and difficult readjustment period ahead and together with the previously enumerated factors should combine to restrain speculative enthusiasm for the shares of the average business equipment manufacturer.

American Brake Shoe

(*Continued from page 35*)

under the circumstances, such a high reserve of materials must be considered to be favorable.

Although the times are difficult, the management of American Brake Shoe & Foundry has demonstrated a better than average ability to cope with unusual situations. During the depression period the railroad equipment industry was one of the worst hit of any. Yet A.B.S. has the enviable record of having come through those most difficult times without once having reported an operating loss and only once—in 1932—did the company fail to report some earnings available for the common stockholders after all charges had been met. Moreover, the management has long felt a sense of obligation to the shareholders and has thus maintained an unbroken record for the payment of both preferred and common dividends since 1920.

The common stock also has better than average prospects although there is an undoubted element of speculative risk involved due to the

volatile nature of the business in which the company is engaged. From a market angle, the basic factors behind the shares are sufficient to warrant a better performance than most of the other railroad equipment issues and from that standpoint, plus the fact that a liberal dividend return is possible, the shares are worthy of retention.

Markets Are Expanding for Climax Molybdenum

(*Continued from page* 39)

also finding employment in the manufacture of the tools used to make the military equipment. Much molybdenum is also being used for various airplane parts such as sleeve liners for motors, running gears and other places where the high torsional strength, abrasional resistance and superior action under high temperature conditions is important.

With sales showing satisfactory increases over those of a year ago and production costs continuing stable, it is probable that operating profits will fully reflect the gains in sales although as has been the case in almost every other instance, rising taxes will prevent much of the gains in operating profits from descending to net income available for the common shareholder. In the first half of this year, net income, after full provision for the then prevailing tax rates, was equal to approximately $1.58 a share of common stock as compared with about $1.37 a share in the same period of 190. Current indications are that normally less active third quarter was more busy than usual and that earnings for the period approximated those of the second quarter. Earnings for the nine months were in the vicinity of $2.25 a share or better depending upon the amount of tax reserves the company found it necessary to set aside. The outlook for the balance of the year is favorable with the result that in spite of the further increase in taxes, earnings will be well in advance of the $2.40 a share reported last year although they are likely to fall short of those of 1939 when earnings were equal to $4.09 a share and represented the peak net profits of the company's career.

Any mining venture of whatever nature has some element of speculation involved in it due to the very nature of the business. But, in the case of Climax Molybdenum, the size of the ore reserves and the undeniably broad field for future expansion of application of the metal both serve to reduce the importance of the speculative feature inherent in a venture of this kind. Based upon the longer term possibilities, the shares possess a considerable degree of investment merit as compared with numerous other mining enterprises.

As I See It

(*Continued from page* 7)

up parachute battalions, in view of the formidable defenses of the combined British-Russian commands, supported by Indian troops said to number a million men or more.

We can also expect, should Hitler be able to establish himself at Batum, that he will launch a drive thru Libya, in an attempt to clamp the English in a pincer grip,—destroy the Suez Canal and make the British position in the Mediterranean untenable, so that the fleet would be obliged to fight its way out to the Atlantic. But whatever Hitler's plans, events in the Near East hang on the outcome of the Battle for Moscow. Here the intensity of Hitler's attack may so denude the Nazis of the sinews of war, that the power necessary for a successful drive in the Near East this Winter may be lacking.

We have reached the most critical phase of the war, which can readily decide the fate of the British and leave the United States friendless in a bleak world. The millions of Germans in South America could be the nucleus of a new fresh Nazi army in this hemisphere. We must not delude ourselves as to the power of the fifth column in the various South American republics. I recall that even before the last war, the State of Santa Catharina, with its several million inhabitants, was ready to secede from Brazil and become a German dependency.

It seems, therefore, that the common-sense way would be for the United States and England to support Russia to the full right now. This crisis calls for the landing of the British offensive on the continent that would relieve the pressure and divert Hitler's armies from their objective.

The situation is serious because the Allies seem to be sitting by impotently—as though hypnotized—watching Russia bleed to death without taking decisive or appropriate action.

That is how Hitler won before, and if he does again, we are letting ourselves in for a lot of trouble—possibly a war in both oceans simultaneously.

To those who feel there are advantages in appeasement, I suggest they ruminate over what happened to the other appeasers, the most striking example of which is Russia, who thought to save herself by a working alliance with Hitler. Appeasement is stupid. The time to act in our defense is now!

Weighing the Pros and Cons of the Consumer Industries

(*Continued from page* 27)

Consumers all over the country went on a buying splurge prior to the new excise taxes which became effective October 1, and the jam in stores resembled the usual Christmas crowds. The huge amount of buying to escape taxes overflowed into goods not affected by the new retail taxes, and both types of purchases may have a moderating influence on sales volumes for a short period.

Entertainment as a relief from war news, rising industrial payrolls and employment, and the diversion of buying power from consumer goods which will be included in the scarcity list, forecast a bright outlook for motion picture producers. Attendance should continue to expand, since higher taxes on admissions and the lowering of tax exemptions on tickets from 20 to 9 cents will not materially affect individual budgets. High-cost picture releases are an exception and prospects are that no material increase in production expenses will be permitted to develop. Earnings this year are reflecting lower amortization charges due to elimination of high-cost film from inventory. Revenues from foreign sources are expected to swell as a result of promotional operations in Latin Amer-

ica, and it may be that negotiations with Britain will enable the industry to withdraw a greater proportion of British revenues. Motion picture producers are favored by larger revenues and controlled costs. Despite higher wages, distribution expenses, and taxes, a gain in net profits of leading units is indicated.

Rural sales of general merchandise currently surpass all previous peaks. Durable consumers goods normally are more important in sales of mail order than of department stores, and, with reduced supplies, the difference in the rate of sales gains reported by these retail outlets should tend to narrow. Variety chains with stores concentrated in defense manufacturing regions will benefit from earnings gains of the lower income groups, which normally account for a large part of variety business. All retail trade divisions are among the major beneficiaries of increased consumer incomes, and the substantial increase in physical volume is reducing unit overhead costs. Operating margins will tend to widen with increasing retail prices, which have lagged behind rising wholesale costs. While a wide variation in results of individual companies is indicated, profits trends generally are expected to be favorable.

Meat packers' earnings trends are largely determined by price trends, inasmuch as volume is huge and profit margins small. While continued active demand for pork and other meats is anticipated, inventory profits will probably be more difficult to obtain from now on because, while the Government favors higher farm prices, pressure will be applied to hold down consumer prices. Higher prices accompanying larger sales volumes are being reflected in improved operating income for the dairy products industry, and the favorable showing of all divisions is expected to continue for some time. While earnings of meat packers will expand sharply this year, dairy products companies will find higher normal and excess profits taxes more of a burden, and final net profits may not differ materially from those reported last year. Most dairy company stocks are well worth holding for income, however, since present dividends in most cases appear amply protected.

Excepting for the silk hosiery division, which has been hard hit by the embargo on silk imports, all branches of the textile industry are expected to continue enjoying boom conditions. New production records in cotton, wool, and rayon goods will be set this year; no shortages in raw materials are probable. Record sales give promise of the best earnings showing in recent years for wool manufactures, but rayon producers will find operating gains largely absorbed by higher taxes. The new price ceilings in effect on cotton goods allow adjustments for increased cotton costs but not for higher costs such as labor. Good earnings reports are expected despite taxes. All divisions of the apparel industry are reflecting the gain in retail trade stemming from increased consumer incomes, and improved earnings for well situated companies are forecast as a result of larger sales and operating economies.

No priorities exist in the shoe industry, except on certain chemicals used in the tanning of hides, which also are the subject of price ceilings. While further wage advances may occur, record shoe production, resulting operating economies, and higher wholesale prices promise satisfactory profits for leading producers. Some concern over the inventory position is evident in trade circles, however. Retail sales prospects are regarded as favorable, and retailers expect good earings, despite higher taxes.

Increased consumer incomes and restrictions on other types of consumer spending promise to sustain demand for alcoholic beverages, despite higher prices and excise taxes, although a limited reaction may develop as a result of heavy "beat-the-tax" buying. Intermittent price wars therefore may be difficult to restrain, but distillers' profits, which have been trending sharply upward, may not be curtailed seriously. Large inventories made at costs certain to be less than in future are an advantage under present conditions, and the problem of heavy matured inventories, which heretofore has plagued the industry, now seems no longer to exist. Nevertheless, if the recent wave of record pre-tax buying should produce a long period of inactivity, liquor circles concede that a period of keen price competition and possibly a price war might develop. All bets are off just now, with some groups anticipating only a limited reaction in sales of packaged liquors, while others are frankly more apprehensive. Normally, the five-week period from Thanksgiving through Christmas accounts for about one-fifth of annual sales. Distillers are not likely to encourage price wars. Even should fourth quarter results be well under the good third quarter, full year earnings of leading distillers will compare favorably with last year.

Due to increased consumer spending power, consumption of tobacco products this year will be well above last, with cigarette sales expected to establish another record. Reflecting the prosperity of consumers, demand for cigars has expanded, the percentage gain being greatest in the higher-priced articles. Cigarette manufacturers may expect only limited improvement in earnings, since the lower costs of the 1940 crop will be offset by higher Federal income and excess profits taxes, and tobacco costs for the present crop will raise average tobacco costs applicable to next year's production. Leading stocks are well worth retaining for income, however. Prospects for cigar manufacturers would be dimmed by any increase in excise taxes, which are difficult to pass on to consumers, especially of five cent cigars, the largest division in the industry.

Stocks of leading drug companies have some attraction for liberal income. Profit margins are being maintained adequately by increased selling prices and operating economies which are an offset to higher costs. Moderate gains in net profits are indicated after taxes, since sales should continue to reflect greater consumer buying power and further gains in export markets, especially in Latin American countries.

Important as are industry prospects, prevailing trends in operating costs and taxes make for wide variations in net profits of individual companies, and too much stress therefore cannot be made of the necessity of carefully studying each present or contemplated security commitment. However, net profits of many corporations continue to rise despite higher operating costs and taxes because of the savings and economies permitted under large scale production and volumes. Reasoned analysis of individual stocks therefore should enable investors interested in the consumer industries to concentrate on issues with relatively bright prospects and to avoid those with a cloudy or dark outlook.

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